

# INTERVIEW

## First Project Financing for Interconnector Project

Supporting UK-Germany High Voltage Direct Current Transmission Project Involving Kansai Electric Power Company

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The Japan Bank for International Cooperation (JBIC) signed loan agreements in project financing (PF) amounting to up to approximately GBP270 million and EUR156 million with three project companies of NeuConnect, an interconnector project in July 2022. The developers are invested in by, inter alia, Kansai Electric Power Company (KEPCO). (The loans are co-financed with the European Investment Bank (EIB), Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd., etc., bringing the total co-financing amounts to approximately GBP1,069 million and EUR910 million respectively.) This is JBIC's first PF for the interconnector sector.

### Japanese Power Company's First Involvement in Interconnector Project

Europe is advancing renewable energy development to achieve decarbonization. European countries have made a lot of effort to strengthen and expand interconnectors to make the most of the valuable power and share it when it is in excess.

The NeuConnect project will construct a high voltage direct current (HVDC) transmission system that will link the eastern region of the UK and Northern Germany with a subsea cable of a total length of approximately 720 km and a capacity of 1,400 MW. The system will be operated for a duration of 25 years. KEPCO has been involved in the development of the project since 2018 as a shareholder of the project companies.

Okabe recalls when KEPCO asked for JBIC's financial support: "The HVDC system of NeuConnect is capable of transmitting a large amount of electricity with low loss for a long distance. KEPCO was planning to join the project to make use of the technology and know-how it had gained in another HVDC transmission project, which links the Anan Converter Station and the Kihoku Converter Station with subsea cables. Partly because this would be the first overseas interconnector project for a Japanese power company to join, KEPCO asked if JBIC could assist them as a PF lender."

### British and German Leaders Affirmed Project's Importance

But the German legislation had not been established for private sector-led interconnector projects, and obtaining approvals from British and German authorities for laying subsea cables was challenging. Brexit and disrupted supply chains by the COVID-19 pandemic also hampered the progress of the project.

However, in their meeting in July 2021, then British Prime Minister Johnson and then German Chancellor Merkel affirmed the importance of the project, which gave the project great momentum.

### First Project under Memorandum of Understanding with European Investment Bank

Okabe explains: "JBIC started to consider this PF in early 2021, when the British and German legislation for private sector-led interconnector projects began to be finalized. It was not easy to make arrangements because JBIC had not financed an interconnector project before and there were numerous stakeholders. We had four sponsors: a French infrastructure investment firm, a German insurance company, KEPCO, and a British energy developer. And there were three project companies: one in the UK, another in Germany, and the other in the Netherlands. In addition, the lenders numbered nearly 20."

JBIC and the EIB are senior lenders to the project. In October 2021, JBIC signed a memorandum of understanding (MOU) with the EIB to further strengthen cooperation between the two policy-based public financial



institutions, in areas where Japan and the EU will play a leading role. This is the first co-financing project with the EIB since the signing of the MOU.

Okabe looks back on the project: "Because of the COVID-19 pandemic, we had meetings online. As many of the

stakeholders are in Europe, we often worked late in the evening. In PF, which involves lengthy repayments from the project's revenue, it is critical to assess the capacity of the project as a business. The NeuConnect project is a complex project with two schemes: one where the center of the revenue is the British project company, and the other where it is the German company, and these schemes involve different lenders. Furthermore, for some of the non-Japanese sponsors, this is the first project financed by JBIC. These multiple factors required onerous coordination efforts. Assessing the profitability and risks of the project required diligence, too, although the project is guaranteed by British and German government institutions. As risk factors, we assessed the environmental impact of the 720 km cable laying work and its maintenance and the impact of pandemic-induced supply disruption of building materials and equipment on the construction.

The final phase was like a race against time, but, as the only policy-based financial institution to lend in both the British scheme and the German/Dutch scheme, we managed to reach financial close of the first interconnector project that involves a Japanese power company."

Construction of the NeuConnect project is in progress, aiming for completion in 2028.

### Continuing to Support Interconnector Projects with Demand Growth Expectations

Okabe expresses her aspirations and remarks: "With the trend toward decarbonization, the demand for interconnectors is growing further in Europe. British research says the capacity of interconnectors will have to boost from the current level of 7 GW to 30 GW in 2040, and the German cabinet adopted the Easter Package, a bill to accelerate the expansion of renewable energy sources, in April 2022. The recent situation in Ukraine also promoted EU members to strengthen and expand interconnectors in order to secure energy.

Moreover, the Government of Japan advocates collaboration and cooperation with such developed countries as European nations in the promotion of innovation in the energy and environmental technology sectors for the purpose of carbon neutrality, and Japanese companies are increasingly interested in interconnector projects.

JBIC's supporting such Japanese companies will not only contribute toward maintaining and improving their international competitiveness but also lead to the creation of highly efficient power connectors, in Japan and other Asian countries, with the technologies cultivated in such projects. We would like to actively support highly efficient power generation projects overseas that will help to achieve decarbonization."

