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The German Federal Ministry for the Environment, the KfW Bankengruppe, and Munich Re promote deep geothermal drilling in Germany

The German Federal Ministry for the Environment, the KfW Bankengruppe, and Munich Re are launching with immediate effect a new credit programme for the expansion of geothermal power in Germany. Together, they are making available a sum of €60m for the financing of deep geothermal wells. The programme is designed in particular to minimise the productivity risk of the projects.

The high drilling costs are the main deterrent to potential investors in deep geothermal projects due to the risk of not making a find in the depths of the earth. The commercial use of deep geothermal heat for the generation of heat and/or electricity depends to a decisive extent on the availability of sufficient volumes of water at sufficient temperatures. Investments often exceeding €10m for each project are at risk. The support scheme launched by the Federal Ministry for the Environment, the KfW Bankengruppe, and Munich Re is intended to distinctly reduce the productivity risk for investors.

The plan specifically involves KfW loans for deep geothermal wells being granted by way of commercial banks. Up to a maximum of 80% of the costs that qualify for a subsidy will be financed in this way. If no find is made, the investor will be released from having to repay the remaining loan amounts as soon as the project is declared a failure. The productivity risk of each deep geothermal project and hence the question whether it qualifies for support will be examined prior to the loan being granted.

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Besides the usual loan interest, the subsidised loans also contain a “risk loading” for the productivity risk. In addition, one-off fees must be paid when the loan is applied for and when the loan contract is signed. In return, the investor receives an expert assessment of the deep

geothermal project and technical support before and during the drilling phase.

“Deep geothermal energy offers great opportunities for a climate-friendly and cost-effective supply of electricity. With more financial support being provided for geothermal plants in the market stimulation programme and the amendment to the Renewable Energy Sources Act that has been in force since 1 January, we have again improved the general conditions for this technology. The new credit scheme will ensure a further reduction in the risks encountered by operating companies. Incidentally, this cooperation is a good example of how, even in times of financial crisis, politicians and private companies can pull together on climate protection in view of the great economic opportunities it presents,” said Sigmar Gabriel, Federal Minister for the Environment.

“The KfW Bankengruppe is committed to the principle of sustainability. The exploitation of domestic renewable energy sources in the form of deep geothermal energy is important with a view to climate protection and sustainable energy supplies. It represents a further significant component in our broad range of domestic and foreign support programmes aimed at promoting climate protection,” said Wolfgang Kroh, member of the Board of Management of the KfW banking group.

Thomas Blunck, member of Munich Re's Board of Management: “This cooperation is intended to be a start-up, which will make it easier to finance projects in the field of renewable energy. We see climate change not only as a risk but also as a great opportunity, because if climate protection is pursued resolutely, it will lead to enormous growth potential in new technologies like the generation of power from renewable sources. With our expertise as a risk carrier, we can make a significant contribution towards lessening the often very special uncertainty factors – as in this case with our experience in the field of productivity risk insurance for deep geothermal wells. In such instances, the examination of the productivity risk by Munich Re prior to a subsidised loan being granted is particularly important. This is because the number of geothermal projects qualifying for subsidised loans largely depends on how successful existing projects turn out to be.”

As far as it is humanly possible to tell, geothermal heat offers an inexhaustible source of energy. Germany has three regions that are considered particularly suitable for deep geothermal projects: the molasse basin south of Munich, the Upper Rhine Rift, and the North German Plain. With a power and heat output of 38 MW, Germany's largest geothermal power plant was erected – also with state support – in Unterhaching near Munich. Munich Re participated in this project with what was at that time the first ever productivity risk insurance cover.

Interested investors can obtain further information by visiting the KfW Förderbank's website www.kfw-foerderbank.de or calling its information centre at 01801 / 33 55 77.

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