ENERGÍAS RENOVABLES amERica

Friday, 06 April 2012

Home | Panorama | Wind | Solar | Bioenergy | Other renewables | Energy saving | Electric/Hybrid | Interviews | Blogs
Today's press | Videos | Agenda | Directory | Jobs | About us | Suscribe | Search

panorama

Part two of an on-going series

Policy needs to be 'loud, long and legal' to support renewable investment

Tuesday, 27 March 2012

Dan McCue

In August 2011, a group of experienced finance practitioners gathered at Chatham House in London to discuss the then-pending creation of a $100 billion Green Climate Fund and what they wanted to contribute in terms of practical insights to the United Nation's finance initiative.

Most of those who gathered for the roundtable organised by Chatham House's Renewable Energy Finance Project were senior project or asset financiers with extensive experience in renewable energy and infrastructure.

Some represented global or extra-regional banks, some were venture capitalists, while others worked with specialised equity funds, as international project developers or as institutional investor advisors.

As most of Renewable Energy Magazine readers know, the Green Climate Fund was formally created at the UN climate conference in Durban, South Africa in December, with the US and Saudi Arabia being the only two participating nations to vote against it.

A 24-nation interim board of trustees for the fund is expected to hold its first meeting next month in Switzerland, with eye toward having it up and running by November.

But the day-long discussion that took place at Chatham House is still relevant for the light it shines on the current state of renewable energy finance, as well as the perspectives of those able to provide the backing for such projects across the globe.

Among the first points the participants agree on was that despite the lingering financial crisis, there is steadily rising interest in investing in renewable energy (as well as energy efficiency) in developing countries.

They also agreed that the overall challenge to getting funds to those projects isn't a shortage of capital, but rather policy conditions on the ground that have a direct bearing on the risk/reward profile of an investment and its ability to scale.

A market that's always there

This leads to an obvious question: Just what do these folks consider a "bankable" project?

And then another: Has that definition changed as a result of the global finance crisis?

"Well, to begin with, I think you have to recognize that even after the onset of the financial crisis, there was a prevailing sense that energy was a good place to be," said Kirsty Hamilton, an associate fellow at Chatham House specializing in climate change and energy policy.

"At least in terms of the people I was speaking with; there was a sentiment that energy is something people are always going to need and therefore it was less subject to the financial turbulence than some other sectors," she said.

"That's because, when it comes to an [energy-producing facility] someone puts it in the ground, as long as it works, and as long as they've got a track record and the policy regime is perceived as stable, that's actually not a bad bet," Hamilton continued. "It's a situation where you've got a reasonable amount of clarity about your revenue."

Along with that, investors are always looking ahead to where the growth sectors are, and there is widespread belief that there is a story to tell in this regard about renewables.

"But you've still got to be able to sort of crystallize that on the ground," Hamilton said.

"People will always need power, in some places a clear agenda has been spelled out as regards decarbonization, and now with fossil fuels being on the rise, there's a real sense that renewables will be an increasingly good bet as the cost of the technology comes down," she said.

"We're at the stage where there are already touch points to grid parity that will be reached in the relatively near term -- both in terms of solar and, in some markets, wind; And as that track record goes up, it only serves to help foster future development and depth of the market," she added.

Hamilton said that in light of these realities, she also perceived a deepening of the debate about delivery.

"And by that I mean, not just delivery of energy targets, but the delivery of much deeper sector growth," she explained. "Now, I don't think that's going to happen everywhere, and it's certainly sector-dependent, but the direction of travel, if you will, is still there," she said.

Policies you can bank on

During their discussion of the Green Climate Fund, attendees of the Chatham House roundtable often made reference to principles for attracting capital that have already proven effective on a national level.

Shot through these principles -- originally codified in March 2011 by the Low Carbon Finance Group, a body of the leading capital providers that provides input to government and regulatory bodies on renewable energy policy in the UK -- is the belief that good policy design reduces risk and therefore makes financing interventions more effective.

More specifically, they are looking for long-term revenue certainty and visibility, a level playing field for all market participants -- including a power purchase obligation with a creditworthy counterparty and fair, reasonable and equal balancing charges for utility and non-utility generators -- simplicity and transparency, and policies that are both affordable for the government and consumers, while also being flexible enough to be adapted to the unforeseen or unintended.

"The Low Carbon Finance Group is still kind of new, but some of the people in it have been involved in renewables for more than 15 years, so they bring a wealth of personal experience to the table," Hamilton said. "They've got track records, are familiar with the technology, and they know the issues related to putting deals together."

"What's exciting is that they are actively engaged in helping policymakers understand the conditions for attracting capital and I see that as a very good thing -- it's a very positive dynamic for producing policy efficacy at least cost that will enable investment to move into the market," she said.

Of the principles they've espoused, Hamilton described policy stability as both "absolutely basic" and "really vital".

Sensing her description wasn't quite granular enough, Hamilton recalled a renewable energy finance project she was part of back in 2004.

At the time the financiers she was working with described the desirable policy characteristics as "loud, long and legal."

"By loud they meant that policies should positively affect the bottom line of projects; by legal they meant legally sound, so that they could build in confidence, and by long, they meant in terms of reflecting the duration of projects," Hamilton said.

Deutsche Bank would later offer its own formulation of the same notion, calling it "TLC," a descriptive for policy transparency, longevity and certainty.

"But it's not just about support mechanisms for renewable energy projects, it's about whether or not the planning process is lining up; Is the grid and distribution infrastructure there and available on terms that make sense? Is route to market, when you are selling your power to users, clear? What makes a project bankable, or, to use another term, 'Investment grade,' is an overall package of good, old-fashioned energy policy," Hamilton said.

"Along with all this, the other thing you need is simplicity," she said. "I think in the US you've got something called an 'elevator pitch,' don't you? It's the idea that if you can't get into an elevator with someone and pitch your project, reasonably briefly and straightforwardly, before the doors reopen, then you're just making your life that much more difficult."

"Well, if you're sitting down with a bank or investment firm and trying to explain a policy regime that's really complicated, you've greatly reduced your odds of getting substantial backing," she said.

In the US, much of the talk about renewable energy policy -- at least on the federal level -- revolves around the idea that green energy investment equals jobs, a concept Hamilton described as "the good news story."

Since the teeth of the financial crisis took hold, she said, such talk is equally prevalent in Europe, suggesting that after the dramatic pull-back that has occurred in recent years, government policies make slowly grow more amendable to renewables.

"I was up at the Scottish Low Carbon Investment Conference not long ago, and while the debate there wasn't about jobs per se, jobs are something that seems to constantly come up," Hamilton said. "Now, how that job creation argument figures in future renewables policies is an open question. It really depends on whether you see renewables as primarily delivering an energy target -- the volume growth of renewables -- or whether you see it much more embedded as part of your economic development strategy."

"Subsequently, I was at the Renewable UK conference and there was a fantastic pre-dinner presentation by the former chair of the board, who did a five minute, sort of single breath, outline of all the different segments of the job market that fitted with renewables," she said. "So I think that debate is beginning to mature a bit."

At the same time, however, Hamilton said she wanted to be clear that talk of the potential job creation benefits of renewables isn't the only potential driver of future policy decisions that shape the investment terrain.

Also in play is the ongoing debate in legislative chambers and back offices about the cost and affordability of renewables.

"I think there is a bit of a push back from the traditional sectors who raise the issue of renewables being too expensive and why bother when you can go for something cheaper," Hamilton said. "But, you know, that's the argy-bargy of energy politics."

For additional information:

Chatham House Renewable Energy Finance Project

Chatham House Renewable Energy Finance Policy Papers

TAGS: Renewable energy , Jobs , Grid , Solar , Parity , Africa , Fuel , Europe , Efficiency , Climate change , Wind , Carbón

+ Add a comment