Market Perspectives: financing renewable energy

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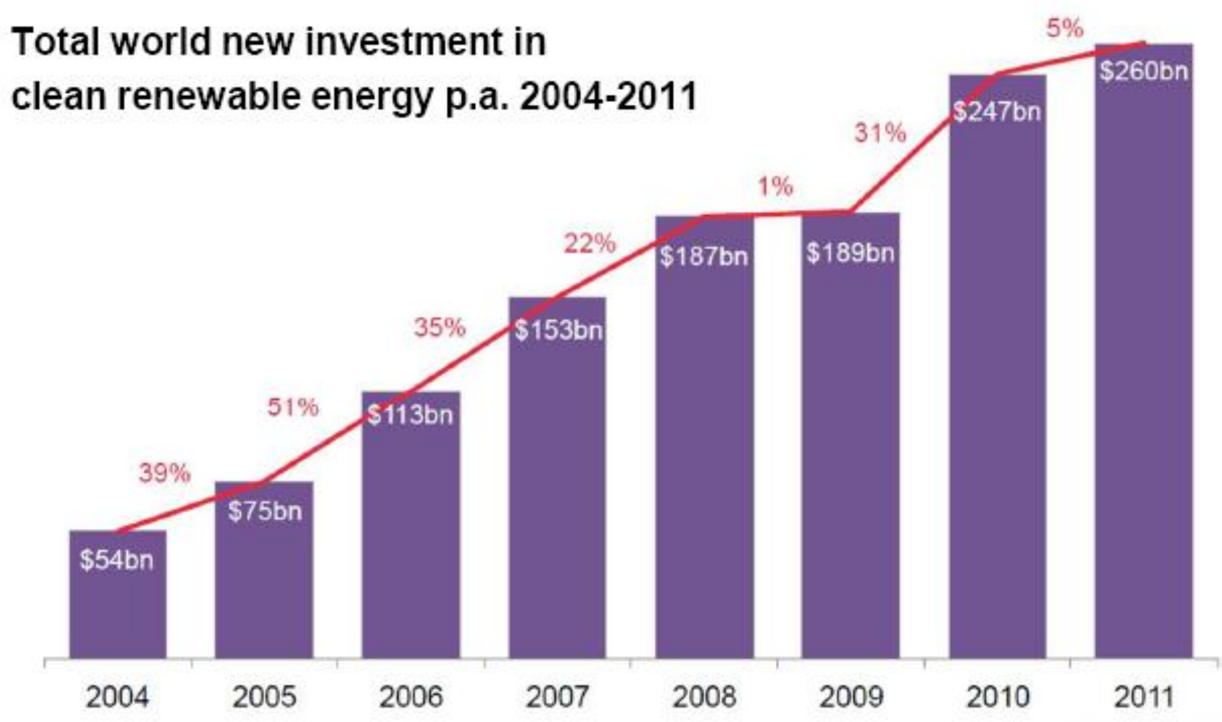
Context: global investment statistics
Bloomberg New Energy Finance

* clear positive story: solid growth continued, despite difficult economic/financial conditions in some key markets; but sector and geographic variation
* investors seeking opportunities where good growth potential, stable conditions, right returns – underlying market drivers are there for renewable energy.



Note: Includes corporate and government R&D, and small distributed capacity. Adjusted for re-invested equity. Does not include proceeds from acquisition transactions

Source: Bloomberg New Energy Finance

Key conditions for finance: ‘Investment Grade’ Policy

- RE is a policy driven market at present: attracting capital involves commercial risk-adjusted returns as RE must compete internally with other investment options.
- Reduce risks & barriers and enable competitive returns (while overall costs come down) reflect characteristics of technologies.
- For growth and scale, RE policy must be embedded within wider energy policy – key to creating level playing field and/or shaping which players are expected to invest.
  - Clear objectives
  - Planning/licensing
  - Support mechanisms; design is key; transparency over any review
  - Stability across project-relevant time horizon: this is very important (affordability may be key to perception of durability)
  - Grid/distribution infrastructure – availability, access, cost (anticipate new policy/regulatory needs of new technology; and integration eg supply and demand)
  - Compliance

Principles of attracting capital:
Low Carbon Finance Group, finance practitioners, UK

Key criteria used by financiers in assessing options under UK's current electricity market reform process.

- Stability and predictability (price, revenue stream)
- Simplicity for new entrants
- Level playing field (including route to market for independent generators – how to sell power, PPAs)
- Inflation linkage
- Transparency
- Affordability (linked to perception of stability)

- Overall bankability – the package has to add up
- '0-60' how quickly financiers get comfortable w new conditions (this is important in context of meeting policy goals)

Kick-starting market: would you invest?

Theme of stable, long-term development of market

- Attracting developers: range of conditions including overall policy and power market design. Which developers are anticipated – utilities, independents, financiers?
- Pace of market growth and link to nature and level of incentives (steady, sustained growth rather than boom-bust)
- Integration across relevant policy areas, but also within government institutions to avoid mixed signals (economy, energy, environment, treasury departments, for example)
- Local incentives, involvement of local government and communities to build ‘at site’ conditions for stable long-term development
- Linkage to industrial policy, to deepen market, skills development
- Confidence – would you invest your money in this market?

Public finance?

For public finance to be effective it needs to target actual finance-related gaps or obstacles. Access to agile public finance may be v useful in early stages of market development, or for particular market segments.

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Renewable Energy Finance Project, short reports:

- Investing in Renewable Energy in the MENA Region: Financier Perspectives, June2011
- 'Unlocking Private Finance for Clean Energy: the need for 'Investment Grade' Policy', December 2009.
- Private Finance for Renewable Energy: A Guide for Policymakers (published with UNEP and Bloomberg New Energy Finance), December 2009; being updated.
- Scaling up Renewable Energy in Developing Countries, April 2010.

http://www.chathamhouse.org/research/current-projects/renewable-energy-finance-project

Low Carbon Finance Group: submission to UK's Electricity Market Reform process: re principles of finance and Annex on capital allocation.