Policy issues for financiers
EMR Update and EU

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Low Carbon Finance Group - intro

- Senior finance practitioners from across the finance sector;
- Strong investment focus on RE, low carbon
- Non-political
- Aim to help policymakers understand conditions to attract capital to the sector
- International/EU market conditions; extensive focus on EMR, EU on agenda.

Policy & investment basics

- Risk/reward - internally RE must be comparably attractive to other more conventional, lower risk, better understood investment options. Capital mobile.

- Policy is central to creating conditions to attract capital to the sector, en route to competitiveness. Broader market system design (high penetration variable power).

- Policy risk/stability (and perception thereof) critical given project economics, revenue generation.

Market conditions – EU starting points

- Interest in RE remains +ve across EU, especially mature technologies, financeable projects & stable markets.
- But overall investment lower + increased uncertainty – on a number of axes.
- Context of competing infrastructure opportunities within EU and between EU and other jurisdictions.
- *High regulatory risk*. Retrospective changes (Spain et al) underpinned by macro-economic conditions.

Market conditions 2

- Constrained bank & utility balance sheets
- Financial regulations & cost of LT financing
- Changing energy market conditions (energy prices, context of supply & demand trends) uncertainty about future energy mix.
- Transition: are we at early stage of a fundamental structural move away from a 'large utility' model, to more disaggregated set of actors (wider set of investors)?

EMR – LCFG original submission Principles for attracting capital

Support mechanism

- Stability and predictability (price, revenue stream)
- Simplicity for new entrants
- Level playing field (route to market for independent generators)
- 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

EMR Update

EMR – granular detail in final phase, attention on

- Draft delivery plan, strike prices & 2020/2030 scenarios
- RO transition (shift to 2017 for fixed price regime?)
- Contract terms – e.g. change in law
- Contract allocation
    - eligibility now includes supply chain plan – detail still to come
    - rationed allocation – visibility against actual CfD budget
    - detail of provisions adjustment of contracted capacity
    - phased projects – e.g. offshore

\- Route to Market – off-taker of last resort (OLR) – key for independent generators.

EU Climate and Energy 2030 framework

- 20:20:20 targets – GHG (+ ETS), renewables, efficiency.
- Mobilising investment - a key objective of the 2030 package.
- Direction of energy policy pulled between national security of supply (capacity markets) and EU-wide market integration.
- Energy system (physical interconnection, flexibility and regulatory design) for high penetration of variable generation. Cross border.
- Perception of cooling of support towards renewables EU generally.

- Lumpy intersection between GHG/ETS, underlying energy and infra and what drives investment, brings new sources of capital in – need to unpick this.

2030 package cont.

- Conditions for significant pipeline of bankable projects
- Getting the 'policy chemistry' right – reinvigorate momentum and confidence, enable money to flow
  - Right policy signals - clarity on intention, scale and timing
  - Right incentives, stable conditions to attract capital:
    - Capital for construction phase – build out of projects/pipeline
    - Capital for operating assets, low risk, stable revenue – attract broader set of investors.
  - Economically sustainable - flexibility/degression of support
  - Defined role for public finance.

Opening out RE investment debate

- Confidence - EU common direction of travel + member states.
- Clarity of intention to impact pace and scale of investment in certain technologies + progress to internal market (and physical system) to underpin this.
- Range of market uncertainties indicates most straightforward approach is maintain steadiness:
  - Clear GHG target (climate driver in economy)
  - Reform of ETS, but not sufficient alone by 2020
  - Most straightforward for RE – at this point in time – is to extend the target to reinforce stability.

Need to open the debate about when/if ETS + tech neutral approach from current, and more precision about what stimulates investment during period of turbulence.