

# R O U N D T A B L E

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## Renewables benefit from the world's determination to build back better

*Despite huge pent-up appetite for development, governments will struggle to deliver on their energy transition promises unless permitting delays are overcome, four infrastructure professionals tell [Amy Carroll](#)*

Renewable energy has been a surprise success story during the dark months of the pandemic. At a time when the world could easily have let the climate change agenda slip down the priority list, global commitment to the energy transition has, in fact, gained fresh momentum. Even as many markets teeter dangerously on the brink of third waves of the coronavirus, governments are united in their determination to build back better and greener.

"In many ways the sector has benefited from government recovery programmes that are designed to support the transition to a sustainable economy," says Daniel von Preyss, executive director and head of private equity/

infrastructure at Impax Asset Management, during *Infrastructure Investor's* latest renewables roundtable.

Covid-19 appears to have brought a fresh focus on all aspects of environmental and social awareness, and LPs' appetite for renewables has intensified.

"I would say that 2020 was the most successful year for renewables fundraising to date," says Jeff DeBlock, partner at CBRE Caledon. "Combined with a lack of correlation to GDP and the continued technological improvements that are making renewables more and more competitive with thermal methods of generating electricity, this renewed emphasis on building a sustainable future has contributed to the ongoing success of the sector."

Of course, the renewables industry

has not been immune to the devastation covid has wreaked. In some countries, electricity consumption dropped markedly last year because of the severity of lockdowns. This had a negative impact on pricing, explains Kai Rintala, managing director at Taaleri Energia, who cites Spain as one example. He adds, however, that significant EU stimulus packages slated for energy transition initiatives, including the electrification of transport systems and EV charging networks, should cause prices to rally over the medium term.

Michael Ebner, managing director at KGAL Investment Management, says that although increased merchant risk in the renewables sector means pricing volatility is not immaterial, the prevalence of PPAs means it is the



### **Daniel von Preyss**

Executive director and head of private equity/infrastructure,  
Impax Asset Management

Von Preyss joined Impax in 2009 and has primary responsibility for the firm's investment in the renewable energy sector. He also heads the asset management function. Before joining Impax, he was responsible for Northern European infrastructure activities at Babcock & Brown, where he focused on regulated utilities, gas storage and broader power generation.

### **Jeff DeBlock**

Partner, CBRE Caledon

DeBlock joined CBRE Caledon in 2012 and is focused exclusively on the firm's infrastructure investment programme. He previously worked in the infrastructure group at the Canada Pension Plan Investment Board. During his tenure with CPPIB, infrastructure assets under management grew from a few hundred million dollars to nearly \$10 billion. DeBlock has also worked in the investment banking, power and utilities group at BMP Capital Markets.



### **Kai Rintala**

Managing director, Taaleri Energia

Rintala has more than 15 years of experience in the infrastructure industry. Before joining Taaleri Energia, he worked for KPMG in Helsinki and London, advising public and private sector clients on infrastructure strategy and transactions across energy, transport and social infrastructure. He has executed 900MW of wind transactions, as well as transactions in hydro power, electricity distribution and decentralised heat services.



### **Michael Ebner**

Managing director, KGAL Investment Management

Michael Ebner has been a managing director of KGAL Investment Management since 2015, having built up the infrastructure team since the firm's inception in 2007. He is also responsible for human resources, structuring and marketing and communications. Ebner previously worked at both Dresdner Bank and Bayerische Vereinsbank.

creditworthiness of the offtaker that is the major concern.

Other challenges presented by covid have included delays to construction, and delays to permitting caused by difficulties in bringing stakeholders, such as landowners and local mayors, together for meetings. “It has not been all plain sailing,” says von Preyss. “Nonetheless, I would say we are coming out of the pandemic stronger than ever, given governments’ support designed to accelerate the transition.”

### Permitting problems

It is clear that the political will is there, underpinned by an increasingly climate-conscious electorate. The capital, too, is ready and waiting to be deployed. Yet systemic roadblocks are still preventing the pace of development from keeping up with both interest from the market and governments’ increasingly ambitious renewables targets.

The chief issue, it appears, is with

permitting. “Getting a permit, particularly in the wind sector, is far more complex today than it was 10 years ago,” says von Preyss. “The regulation around environmental impact has strengthened, and rightly so. But really it is often the small groups of interested parties with objections to projects that are causing the delays – for example, people complaining it impacts the view from their terrace. That doesn’t usually prevent the permit being granted but it does mean that everything takes longer.”

It is a serious problem and one that governments are trying to address. In Germany, local communities now receive a levy from wind farm projects, and that has led to a clear shift in attitudes. “Local mayors that may once have been neutral are now actively lobbying in support,” von Preyss says.

Ebner agrees permitting is causing delays of around 12 months on average: “As a result, almost no market within

Europe has hit its targets for renewable generation over the past year and the future doesn’t look much better because of this pervasive nimby mentality. If that doesn’t change, appetite from investors will continue to exceed the supply of projects which, from an asset class perspective, will put pressure on returns. Crucially, from a global perspective, meanwhile, governments will not be able to reach their climate change targets.”

“The political intent is there,” says von Preyss. “We have the money and we know how to employ it. But we are lacking a permitting structure that provides the certainty we require in order to fulfil what government, and the public, has tasked the private sector with achieving.”

### Regional differences

Of course, the permitting situation varies from country to country. Rintala points to Finland, where the permitting

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DANIEL VON PREYSS  
Impax Asset Management

environment has improved dramatically since government subsidies were withdrawn.

“Now you can generally get projects through without any appeals,” he says. “Texas is another example of a market where permitting is straightforward. In the Eastern European markets where we are active the general public tend to be very pro-wind and solar because of the obvious environmental and cost benefits and also because it brings income to the local authorities where the wind and solar farms are located.”

A relaxed approach to permitting is not the only indicator of an attractive market. Although a liberal approach to permitting signals a region’s desire to be business-friendly, DeBlock says the contracting environment is as important as an open door. And, again, Texas is in the spotlight.

“In Texas, you often have to obtain a corporate PPA or hedge with an investment bank or trading house, and so you are exposed to that risk,” he explains. “Texas is very friendly from a development perspective, but there are real risks on the operational side.”

Ebner is sanguine about merchant risk. “We may talk about the good old days of feed-in tariffs, but that subsidised environment carried regulatory risk, quite extreme regulatory risk in some countries,” he says. “Today, that regulatory risk has abated. Yield assessment risk has reduced and technical risk has reduced as well. Merchant risk, on the other hand, has increased. There is an equation that every investor has to consider when deciding whether the returns on offer in a particular deal are fair.”

Furthermore, a tolerant permitting

environment may lead to a market becoming overwhelmed. “If the permitting process is too easy, the market may be flooded and there are only so many offtake arrangements available at any one time,” says von Preyss. “If too many PPAs are being sought, you will either struggle to obtain one or the pricing will be unattractive.”

### **March of the oil majors**

Yet although competitive dynamics are important at a local level, the round-table participants are confident that, globally, there is more than enough opportunity to go round.

“Just look at the growth targets for renewables,” says von Preyss. “There is an awful lot of capital that can be absorbed. The volume of dealflow we see on a daily basis is enormous. However, it is all about picking the projects

that are right for your risk/return profile. We may compete with other infrastructure managers when fundraising, but we rarely meet each other in the market.”

What does surprise von Preyss, however, is the level of risk some investors, often with limited experience of the sector, seem willing to take: “We are sometimes left scratching our heads with some of the aggressive pricing that we see. If you are focused on operating assets that are well-managed, well structured, with perhaps 15 or 20 years of secured offtake, it is easy to see how that can become a bit of a cost-of-capital shoot-out. But when you are dealing with late-stage development and permitting risk, the situation is completely different, and I find myself bewildered by the risks some investors seem willing to accept.”

However, it is not just other private markets managers that are playing in this space. DeBlock says his firm also comes up against listed specialists and strategics. “There is room for everyone, but financial investors need to remain disciplined for their LPs,” he says.

The oil majors are, of course, also getting in on the act. “We don’t have the financial resources of the oil majors so we need to play to our strengths,” says Ebner. “We have to be quicker on our feet and we sometimes need to go deeper into the market. We have to build relationships rather than just write large cheques. That, after all, is why LPs pay us our fees.”

Rintala agrees, adding that this is why he believes the mid-market offers the most attractive renewables opportunities. “Once you get into the bigger-ticket deals, returns have a tendency to collapse down to the lowest cost of capital, which is why we focus on a €30 million-€50 million sweet spot,” he says. “We know that is the space where we can be at our most nimble and most competitive. The entrance of the oil majors into the renewable energy sector effectively underlines that point.”

Furthermore, the oil majors tend to

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JEFF DEBLOCK  
CBRE Caledon

### The return of solar

**“Solar has returned to Europe,” says von Preyss. Indeed, solar represents around 50 percent of Impax’s latest fund, as opposed to just 5 percent for its predecessor.**

Retroactive reductions in Spanish solar tariffs in the middle of the last decade left many investors burnt. Similar stories played out in other markets, including Italy and the Czech Republic.

“Now the market is back, for the simple reason that solar has become cost-competitive,” von Preyss explains. “The costs are now around 10 percent of what they were 10 years ago, when everyone was busy building in Spain.”

Rintala is also bullish on solar in selective markets. “We are active in Texas, in Spain and in Greece,” he says. He adds that returns were higher in Greece because of the greater complexity required in a less developed solar market.

“Solar has come of age,” adds DeBlock, explaining that his firm had particular success with smaller-scale community solar projects in North America. “Solar has become competitive with conventional forms of electricity generation. Opportunities are plentiful. It is just a matter of sizing them up and finding the appropriate risk/return profile.”

Ebner sounds a word of warning, however. “Everyone loves solar because it is low risk,” he says. “But that often means prices are high and returns under pressure.” He also explains that site availability is an issue in some markets. “In Germany, for example, it is almost impossible to build out solar to targets because the sites just aren’t there.”





focus on the offshore wind market, as do the big utilities. “That is where returns are getting particularly tight,” says von Preyss. “We, on the other hand, tend to focus on the more fragmented onshore market where projects are smaller and you can still generate good risk-adjusted returns.”

#### Where next?

Certainly, LPs do not appear to have been deterred by the crowds gathering in the renewables space. Indeed, appetite is voracious for any manager with experience in the sector – and for specialists, in particular. “A decade ago, we were still encountering a lot of scepticism in our conversations with investors because

renewable energy was largely reliant on some form of expensive out-of-market feed-in tariffs,” says von Preyss. “We spent half the time in meetings discussing whether renewables technology really had a future at all.

“Those discussions don’t happen anymore. Instead, investors focus on where in the value chain they should be deploying. They may be investing out of a sustainability allocation, or a general infrastructure allocation, but clearly there is far more interest in, and demand for, renewables specialists.”

Ebner agrees that renewables are now viewed as a stable sub-asset class, but also points to the importance of the adjacent energy transition sector. “At the moment, those energy transition assets tend to carry a different risk profile and asset managers need to offer investors dedicated generation and transition vehicles,” he explains. “But, over time, the two sectors may well merge.”

Indeed, all four renewables investors are excited about the opportunities that these adjacent sectors are poised to provide. “If you are going to invest in intermittent technologies, such as wind and solar, it is impossible not to be looking at battery storage and other storage solutions as they continue to develop,” says Rintala. “As those technologies become more cost-competitive, it is a natural evolution – that is where the market is headed.”

Ebner points to the hydrogen space as attracting particular attention right now. “LPs are incredibly excited about the hydrogen concept, but there are very few opportunities in the market,” he says. “I would assume, if you have a good and well-advanced hydrogen project, you could sell it easily.”

“For wind and solar generation to continue to expand market share, investment is needed in all the related infrastructure sectors,” says von Preyss. “These technologies are still in their infancy, but within the next five to 10 years they will become an integral component of the renewables ecosystem.” ■

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MICHAEL EBNER  
KGAL Investment Management