TRENDING TOPICS

RENEWABLE ENERGY POWERS AHEAD WITH NEW FINANCING STRATEGIES

Trending Topics represents an executive summary compilation of news, information and perspective on matters affecting businesses and business leaders today. This insight is being provided to keep you up to date on the latest developments and trends influencing these topics. These views do not necessarily represent the views and opinions of PNC. For additional research on these topics, please consult the sources cited in this article.

Facing a string of challenges, investment in renewable energy sources dropped in 2016 compared to the year before, but the trend toward wind, solar and other renewables has firmly taken hold among corporates and investors, aided by new financing vehicles such as "green banks."

Bloomberg New Energy Finance (BNEF), a research organization that uses proprietary data to analyze the financial, economic and policy implications of emerging energy technologies, estimates that investments in clean energy fell 18% in 2016 from the year before, to $287.5 billion.[1] Nevertheless, the power available through wind and solar installations hit a new record last year, estimated by BNEF analysts at 127 gigawatts. The Solar Energy Industries Association says 1 gigawatt of solar energy can power about 164,000 homes.[2]

About half of the investment drop likely stemmed from reductions in the cost of equipment, BNEF says, a trend favoring further growth in renewables. The slowing of the economy in China, which has aggressively pursued implementing renewable energy sources, was another significant factor, according to BNEF.

OVERCOMING OBSTACLES

The research firm foresees several potential factors impeding renewable energy growth this year, including the Trump administration setting policies that favor fossil fuels, the fallout from Brexit and potentially more European countries moving to exit the European Union, and China's still "dangerously unbalanced" economy.

Another big threat is rising interest rates. According to BNEF, as rates rise, the big question is "whether risk premiums to clean energy projects can continue to come down to compensate — or whether all-in borrowing costs will rise, jeopardizing the competiveness of renewable electricity."[3]

BUILDING MOMENTUM

Despite potential obstacles, the renewable energy industry has gained significant momentum, to the point where it has eroded coal's share of the electricity-generation market. The U.S. Energy Information Administration says the share of U.S. electricity generated by renewable energy sources, not including hydropower, steadily grew to 15% in 2016 from 10% in 2010. The percentage generated by natural gas grew even faster over the same period, to 34% from 24%. Coal, meanwhile, has shrunk to 30% from 45%.[4]

Corporates typically strategize years in advance, so the Trump administration's energy policies, however they turn out, are unlikely to change corporate plans much. In one example of companies incorporating renewables into their long-range plans, 83 major companies so far have pledged to source 100% of their energy consumption from renewables by signing on to the "RE100" initiative. Notable signees include Apple, BMW, HP, Johnson & Johnson and P&G.

Despite potential obstacles, the renewable energy industry has gained significant momentum, to the point where it has eroded coal's share of the electricity-generation market.

PNC

INVESTMENT TRENDS

On the investment front, renewables took somewhat of a dip in 2016. Last year, utility-scale solar and wind dominated asset finance, in which companies pledge balance sheet assets to secure loans, remained about the same as the year before, at just over $30 billion. However, financing through the public markets plummeted to $3.3 billion in 2016 after reaching closer to $10 billion in each of the previous two years, and venture capital and private equity dipped slightly, to $3.5 billion. Investment in rooftop solar hit $13.1 billion in 2016, up $3.2 billion from the year before.[5]

SPECIALTY FINANCING PROVIDERS

In the U.S., a number of financial institutions have developed a specialty in renewable energy financing. Seminole Financial Services, for example, has closed more than 150 transactions for small-scale utility projects, generating 1 megawatt to 20 megawatts.[6]

"Seminole's capabilities include a true 'one-stop shop' program that provides development capital, construction debt, permanent debt, and tax credit equity," the company notes on its website.

GREEN BANKS

The Paris Agreement in late 2015, dealing with greenhouse-gas issues, increased interest in building a broad spectrum of financial solutions, given that an estimated $13 trillion in investments would be required to meet the signatories' commitments.[7] The agreement spurred the development of "green banks," public entities established to facilitate private investment in low-carbon, resilient infrastructure.

The Paris Agreement in late 2015, dealing with greenhouse-gas issues, increased interest in building a broad spectrum of financial solutions, given that an estimated $13 trillion in investments would be required to meet the signatories' commitments.[7]

So far, 13 green banks have emerged around the world, seven of which are in the U.S. The Connecticut Green Bank was the first of its kind in the U.S., formed in 2011 by Gov. Dannel Malloy and the Connecticut General Assembly. It has teamed up with private investment partners to deploy more than $1 billion in capital since its inception to fund clean energy projects across the state, matching every $1 of public funds with $6 in private investment.

A recent fact sheet published by the Union of Concerned Scientists, which supports opening a green bank in Maine, notes that the bank could provide a range of financial products, including business loans, credit enhancements, warehousing and securitization services, and structured products and other financing tools.[8]

To discuss these topics in more detail, please contact your PNC Relationship Manager.

1 "The shift to 'base-cost' renewables: 10 predictions for 2017," Bloomberg New Energy Finance blog, Jan. 18, 2017. Available at: https://about.bnef.com/blog/10-renewable-energy-predictions-2017/

2 "What's in a Megawatt? Calculating the Number of Homes Powered by Solar Energy," Solar Energy Industries Association. Available at: http://www.seia.org/policy/solar-technology/photovoltaic-solar-electric/whats-megawatt

3 "The shift to 'base-cost' renewables: 10 predictions for 2017," Bloomberg New Energy Finance blog, Jan. 18, 2017. Available at: https://about.bnef.com/blog/10-renewable-energy-predictions-2017/

4 "2017 Sustainable Energy in America Factbook," Bloomberg New Energy Finance and The Business Council for Sustainable Energy. Available at: http://www.bcse.org/sustainableenergyfactbook/

5 "2017 Sustainable Energy in America Factbook," Bloomberg New Energy Finance and The Business Council for Sustainable Energy. Available at: http://www.bcse.org/sustainableenergyfactbook/

6 "Seminole Financial Services Surpasses $1 Billion in Renewable Energy Lending," Seminole Financial Services, Jan. 12, 2017. Available at: http://www.seminolefinancialservices.com/2017/01/12/seminole-financial-services-surpasses-1-billion-in-renewable-energy-lending/

7 "The Year of Climate Finance: 2017 Outlook," Renewable Energy World, Jan. 31, 2017. Available at: http://www.renewableenergyworld.com/articles/print/volume-20/issue-1/features/finance/the-year-of-climate-finance-2017-outlook.html

8 "Green Banks: Transforming Clean Energy Finance in Maine," Union of Concerned Scientists, December 2016. Available at: http://www.ucsusa.org/sites/default/files/attach/2016/12/maine-clean-energy-finance.pdf

CIB BC PDF 0517-0137-537803