Key findings from UNDP’s Derisking Renewable Energy Investment report

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IRENA/CPI WFES Side Event: Risk Coverage for Renewable Energy Investments
Monday 20 January 2014
Promoting renewable energy: The impact of high financing costs

The impact of high financing costs


All assumptions (technology costs, capital structure etc.) except for financing costs are kept constant between the developed and developing country. Operating costs appear as a lower contribution to LCOE in developing countries due to discounting effects from higher financing costs.
Public instrument packages: (i) reducing, (ii) transferring and (iii) compensating for risk

Select Cornerstone Instrument
Examples:
- Feed-in tariff
- PPA-based bidding process

Select Policy Derisking Instruments
Examples:
- Long-term RE targets
- Streamlined permits process
- Improved O&M skills

Select Financial Derisking Instruments
Examples:
- Public loans
- Partial loan guarantees
- Political risk insurance

Direct Financial Incentives (If positive incremental cost)
Examples:
- Fit/PPA price premium
- Tax credits
- Carbon offsets

Case-studies (onshore wind): Financing cost waterfalls

Source: UNDP, Derisking Renewable Energy Investment (2013). Data obtained from interviews with wind investors and developers. See Annex A of the report for full assumptions. The post-derisking cost of debt and equity show the average impacts over a 20 year modelling period, assuming linear timing effects.
Case-study South Africa (8.4 GW, wind): Risk waterfalls

Source: UNDP, Derisking Renewable Energy Investment (2013). Data obtained from interviews with wind investors and developers. See Annex A of the report for full assumptions. The post-derisking cost of debt and equity show the average impacts over a 20 year modelling period, assuming linear timing effects.
Case-study South Africa (8.4 GW, wind): Modelling results

Conclusions

• Given renewable energy’s sensitivity to financing costs, derisking is a key opportunity for policymakers to attract private sector investment.

• Investing in derisking appears to be cost effective when measured against paying direct financial incentives, such as a FiT premium.

• The best outcomes occur when policymakers address the risks to renewable energy investment in a systematic and integrated way.

• Opportunity to combine risk reduction and risk transfer in key risk areas:
  - **Power market risk**: implement well-designed, high quality policy and policy risk insurance.
  - **Counterparty risk**: best practice operations, cost recovery and loan guarantees/partial risk guarantees.
Reports & Financial Tool

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