Blackfinch Energy

Investments in Renewable Energy: Challenges and Opportunities

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The UK renewable energy sector has seen rapid growth in recent years as the Government has made low carbon energy one of its main priorities. In 2021, the UK Government set in law the world's most ambitious climate change target, aiming to reduce greenhouse gas (GHG) emissions by 78% by 2035 compared to 1990 levels, and in doing so helping to drive the renewable energy sector.

The Government is committed to its target of net-zero carbon emissions by 2050. It has also released proposals to reinvigorate the UK's economic and employment situation through a 'green recovery' following the coronavirus pandemic. This reflects the significant role that it expects the green sector to play for the UK economy in years to come.

Blackfinch invests in the proven technology of solar and wind energy, with over 47 sites nationwide. Investments can deliver stable predictable revenues. Many projects benefit from prior government subsidies. We also now invest in subsidy-free developments, acquire subsidised operational projects, and use Power Purchase Agreements (PPAs) with strong counterparties.

Power prices have continued to show considerable strength, and through 2021, we capitalised on this opportunity. The higher energy prices enabled us to fix our project PPAs at suitably high levels and, in many cases, at levels well above the forecasted rates. For our operational sites, these power prices are fixed at good prices for the next two years. For a further construction project due to start operations soon, we expect to be able to fix power prices at rates much higher than originally forecast, which would be of significant benefit to the project and its investors.

Energy-Related Opportunities

Gas Scarcity: Power prices are essentially set by the gas price. The Russian invasion of Ukraine, and subsequent sanctions imposed on Russia's oil and gas industry, mean gas looks set to be in short supply for at least the short to medium term. Therefore, power prices are likely to remain high. Higher power prices enable new renewable investment to become viable, potentially paying back within a shorter timeframe than seen historically, making internal rates of return (IRR) for renewable energy projects considerably more appealing.

Investing in Renewables Now Increasingly Attractive: Increased awareness and immediacy of energy security has stepped up the calls for UK energy self-sufficiency, particularly relating to renewables, which have less exposure to the gas price. With UK renewable power much more attractive, this could encourage easier planning and the rollout of necessary peripheral energy infrastructure (such as grid reinforcement and capacity).

Also, increased demand for renewable energy by consumers (retail as well as commercial and industrial) has created a market value for 'Renewable Energy Guarantees of Origin' (REGO) certificates. We are now realising additional value, in some cases quite significant sums, for these certificates and will extend that activity where possible.

Increased Appetite for Corporate PPAs: Corporate buyers have been hit hard by higher power prices. Heavy power users may increasingly look to source their power through corporate PPAs, contracts which would effectively allow them to buy energy directly and more cheaply from renewable energy suppliers, ensuring greater price certainty. Using renewable energy is also positive for companies for environmental, social and governance (ESG) reasons.

For Blackfinch as a renewable energy generator, corporate PPAs ensure a long-term price agreement can be fixed with a suitable investment grade counterparty, meaning we can potentially add bank debt (gearing) to the projects.

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Energy-Related Challenges

Increase Competition: The higher power prices attract more players to the sector, making projects harder to come by, raising prices and reducing IRRs.

Supply Chain Issues: Raw material and component prices could increase substantially, lead times for construction projects could extend further, and supply chain uncertainty could create inflation in development and construction costs. Also, the possible scarcity of materials and components could prevent construction sites from reaching operations, or hamper the availability of spare materials and components to ensure normal operations to continue.

Economic Uncertainty: The bleak economic outlook for the UK, and the sharp falling in living standards, could have wider consequences, such as an increase in crime levels. This could potentially include the theft of power generation equipment. We have already increased security at some sites as a precaution. Also, cyber-attacks on grid infrastructure could impact power distribution or settlement operations.

Greater Counterparty Risk: High power prices are likely to squeeze some energy suppliers, creating a degree of counterparty risk, particularly for less financially robust entities. Our offtakers – the purchasers of renewable energy in our solar development projects – are large or publicly-listed companies.

Higher Costs: Operational costs generally inflate with inflation, and with the increases in the Retail Price Index (RPI), these are affecting the operational costs somewhat more than usual. Also, higher import costs, while a small operational element, could also increase our operational costs.

IMPORTANT INFORMATION