(6) A dedicated renewables finance instrument

Wind energy is a high CAPEX technology, so capital costs have a major impact on overall project costs. The cost of capital is particularly sensitive to investors' confidence in regulation. Regulatory uncertainty means higher risk premiums. As a result of different regulatory conditions between Member States, the Weighted Average Cost of Capital (WACC) varies considerably across the EU, with cheaper capital in the North and West (e.g. 3.5-4.5% in Germany) and higher rates in the South and East (e.g. 12% in Croatia, 10% in Spain and the Czech Republic).

Higher regulatory risk not only depresses the economic viability of assets by raising the cost of capital. It also raises the overall cost of building the energy infrastructure necessary to deliver on EU climate and energy goals. E.g. a 2% additional risk premium in the UK would increase the total cost of financing the UK's offshore wind by £3.14bn pa.[1].

RECOMMENDATIONS

- A dedicated financial instrument, replicating the EFSI model, should be established for the post-2020 period.
- This financial instrument should:
    - facilitate access to finance for regional renewables projects, incl. projects in one country serving power demand in others;
    - provide first loss capital to leverage private investment;
    - finance renewable energy projects through long term contracts;
    - revive the securitisation market;
    - ensure increased cooperation with third parties; and
    - serve as an investment platform and advisory hub.
- The instrument should blend lending with grants, incl. from the Structural and Cohesion funds and (possibly) unspent funding from the NER300.

RATIONALE

1) Ensure geographically balanced deployment of renewables beyond 2020

In many important markets (e.g. Poland, Romania and Bulgaria) there are currently no wind investments happening despite these countries having significant potential for further expansion of wind power. One of the main problems in these countries is that regulatory uncertainty has driven up risk premia. In 2015 47% of Europe's new wind installations took place in Germany alone, while almost 50% of new investments were concentrated in the UK.[2] Regional investment platforms and financial incentives should enable a more targeted outreach to countries with a poor regulatory track record.

2) Incentivise Joint Projects to kick start regional cooperation

Voluntary regional cooperation will not be enough to incentivise Member States to make the necessary commitments to deliver on the EU wide 2030 Renewable Energy target. A financial instrument focusing on financing renewable energy projects meeting energy demand in two or more countries would help kick start regional cooperation.

The benefits would go beyond pure cost savings and risk sharing between the countries. Such an instrument would help avoid the duplication of efforts and promote specific technologies through economies of scale. Ultimately it would also incentivise Member States to align regulatory frameworks and bring down administrative-related projects costs.

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[1] The UK Energy and Climate Change Committee, March 2016

[2] EWEA, Wind in power – 2015 European statistics, February 2016