Unlocking investment in clean energy projects

July 2021

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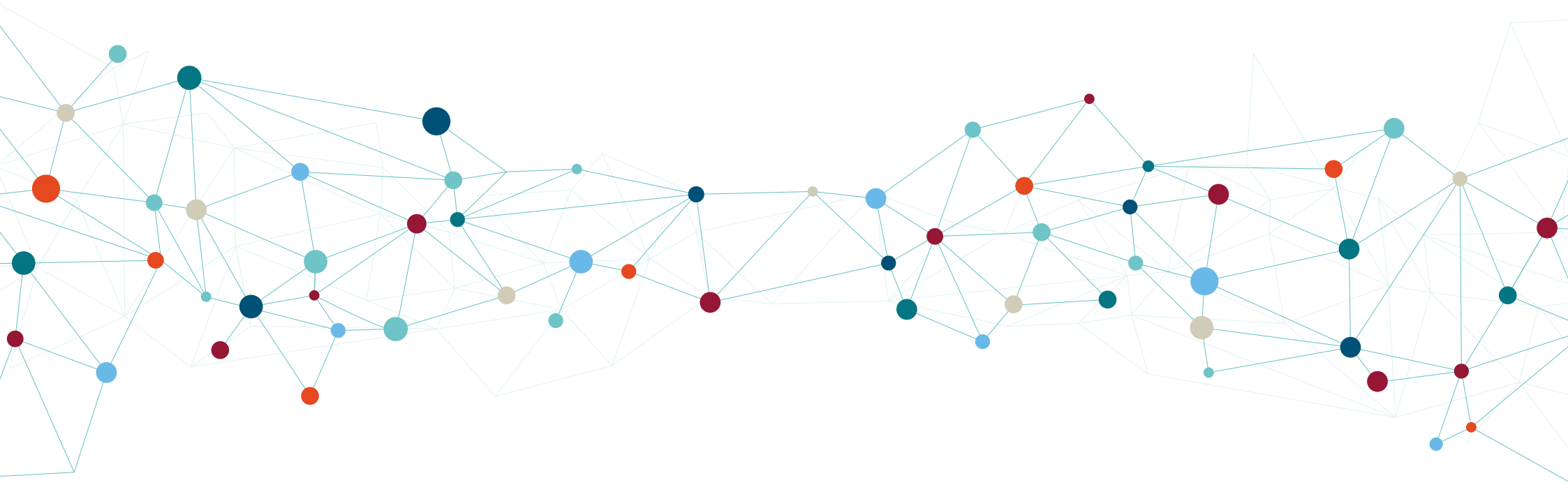

Foreword

The pandemic brought about significant change in the way we live, work and shop, which in turn brought large reductions in both noise and air pollution levels across the UK and highlighted the need for greener infrastructure and the creation of an economy with Environmental, Social, and Corporate Governance (ESG) at its heart.

It's clear that the clean energy sector has an important role to play in the economic recovery of the UK, and continued interest from investors in acquiring and funding both established and emerging technologies demonstrates that things are certainly moving in the right direction.

An increased focus on green finance from financial institutions, government and businesses alike, and increased availability of sustainability linked loans which facilitate and promote sustainable economic activity and growth, provides a unique and exciting opportunity for investors. This burgeoning financial model will unlock funding which will only further stimulate growth in the clean energy sector.

At TLT we're proud to be taking action and are working with Carbon Intelligence to develop an ambitious sustainability programme for the firm to help meet our aim of becoming a net zero emissions organisation by 2025. As the UK's transition to net zero by 2050 continues, it's clear that we all need to be bolder in our actions, and take a more strategic and scientific approach to addressing the challenges we face as we strive for true sustainability.

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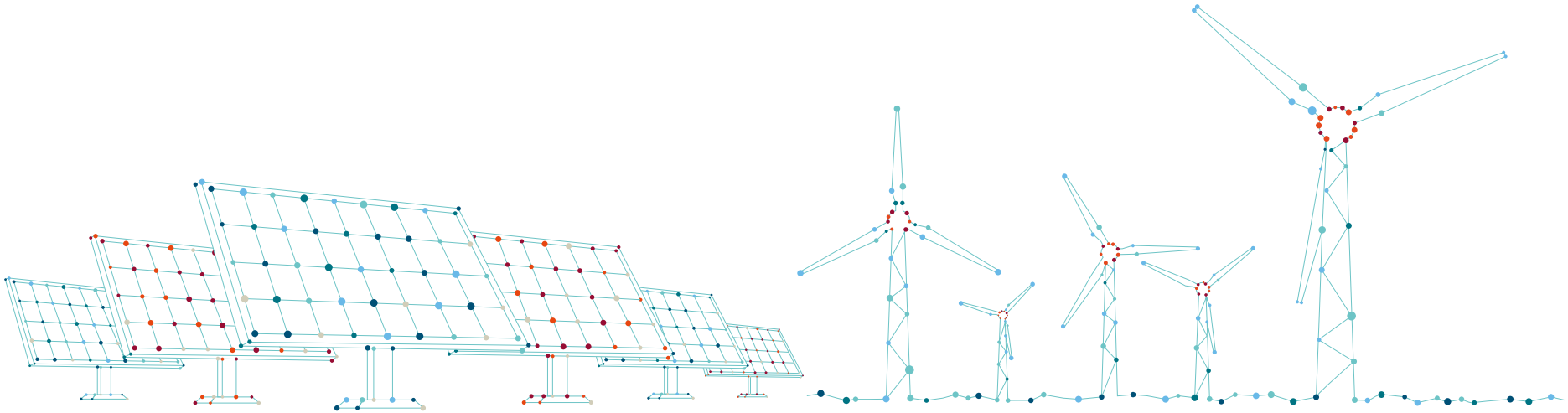


Introduction

Intense competition and the increasing availability of capital is driving the market forward. However, as the market moves into new areas there are still some challenges that need to be addressed in order to fund the drive to net zero.

Without the certainty of subsidies, new investment models are needed to make the funding of subsidy-free projects and new technologies without proven revenue streams viable. Increased competition means that investors are having to become more agile and less risk adverse in order to secure the best projects. So how do we make net zero funding viable and what trends are driving the market?

One of the themes highlighted in this report is the growing trend for equity investors to enter the project-life cycle at an earlier stage, taking construction and even development risk in order to secure a project pipeline and boost revenue returns. For developers with a reputation for bringing successful projects to market, this is an opportunity to enter into partnership with a funder who will not only provide the capital but also has a vested interest in seeing the project succeed.

In addition, with investor interest in mind there is also a drive by developers to future proof projects through the addition of storage (and often EV charging infrastructure) to solar and wind projects - bundling technologies to give investor better revenue returns.

Furthermore, increased capital is driving investment into new technologies such as hydrogen, pumped storage and floating wind.

Staying true to the adage that debt follows equity, the debt market is also developing new products to fund both subsidy-free traditional technologies like onshore wind and solar, as well as newer technologies such as EV charging infrastructure and energy storage. Challenges have included demand risk (giving uncertainty of revenue streams), project duration and the unproven nature of new to market technologies.

The emerging trend highlighted in this report is the launch of products which introduce merchant revenue alongside contracted revenue to maximise debt.

The viability of these products has been tested for energy storage and over the coming months we'd expect this to be widened out to other technologies too.

Other technologies such as hydro, biomass and energy from waste are also looking to secure debt funding, and there is a nascent market opening up for EV charging infrastructure.

As this report highlights, it is without doubt a competitive market but developers should still keep in mind that market reputation and project bankability are still the keys to unlocking cost effective capital at the best terms.

Over the coming months we'll likely see an increase in clean energy project funding driven in part by COP26, the launch of the UK infrastructure bank, and the government's announcement that the UK's sixth carbon budget will incorporate greenhouse gas emissions from international aviation and shipping to create legally-binding targets to cut carbon emissions by 78 per cent by 2035.

For those newer technologies which have viability gaps such as carbon capture and storage, and hydrogen, the Subsidy Control Bill could be the catalyst needed to support the development of and funding into these areas.

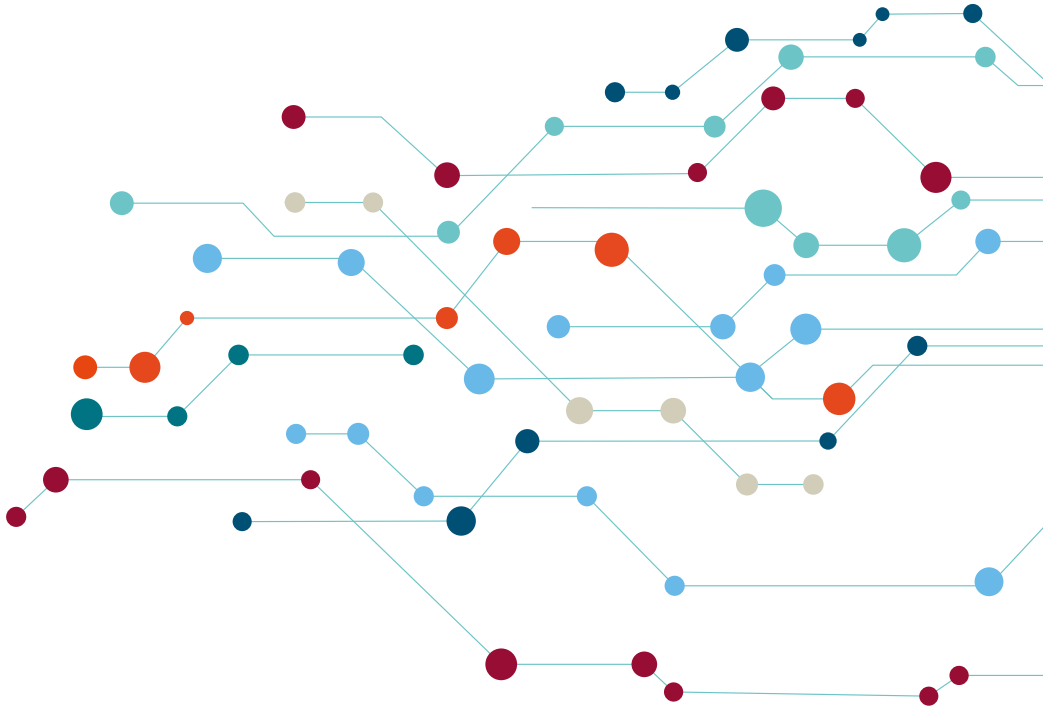
the UK's sixth carbon budget will incorporate greenhouse gas emissions from international aviation and shipping to create legally-binding targets to cut carbon emissions by 78 per cent by 2035.

“The direction of travel is clear. The clean energy sector has a critical role to play.”

In addition, greening finance and financing green are becoming the new norm. For example, 160 firms from the global financial services sector form the Glasgow Financial Alliance for Net Zero in a bid to decarbonise their investments and make their businesses net-zero by 2050. This new organisation, led by Mark Carney, will see global financial institutions with a combined $70 trillion of assets under management sign-up to science-based carbon-reduction accreditations, with targets and reporting requirements.

The scaling of financing green builds on an already buoyant market - and one which has traditionally been regarded as a safe investment haven - by offering new opportunities to investors and unlocking significant further growth for traditional clean energy generation, nascent technologies as well as zero-carbon transportation.

The direction of travel is clear. The clean energy sector has a critical role to play. As new investment solutions are developed and new products come to market, the pieces of the funding net zero puzzle will continue to be unlocked.



The equity investment market

The core investment market is still attracted to good quality, bankable, subsidised operational projects, but these are in high demand. With many players chasing the same projects, investors have had to review their investment strategies and there has been a move to diversify investment into non-subsidised projects and new technologies which might not have previously been considered, such as hydro, anaerobic digestion (AD), energy storage and green hydrogen.

Over the last 12-18 months there has been a growing appetite for large-scale subsidy-free wind and solar projects. These technologies are familiar to equity investors and debt funders and that familiarity means the leap from subsidised to subsidy-free has become quite manageable. Margins are however much tighter, but that can be offset against the economies of scale brought with larger-scale projects and portfolios of medium/large sized projects along with framework agreements with construction counterparties and off-takers.

Competition for subsidy-free wind and solar is increasing, so many investors are coming downstream to invest at a much earlier stage in the project lifecycle and are increasingly willing to take construction risk. There has also been a significant spike in joint venture arrangements with investors teaming up with reputable developers with the developer bringing sites to the joint venture and the investor bringing the funds. Through this route, many investors are getting involved in greenfield sites and even taking development risk.

Investor interest in battery storage has also increased as new investors enter the market. Currently the majority of investors are looking at projects at the ready-to-build stage as this enables them to secure operational projects in a shorter timescale. However, as competition for projects increases it is expected that there will be an increased appetite to move to invest at an earlier stage, as we are seeing with wind and solar.

However, these are not the only trends driving the investment market; interest in multi-technology projects which co-locate solar (or onshore wind) with storage and even EVCI are also gathering speed and will play an important role in the UK reaching net zero and the drive to reach electrification by 2030.

Deal highlight

TLT advised long-standing client Ecotricity on the sale of the Electric Highway – its pioneering national charging network – to sustainable energy company GRIDSERVE.

The Electric Highway was launched by Ecotricity in 2011 to enable early adopters of electric vehicles to drive the length and breadth of Britain. The sale allows Ecotricity to push new boundaries in its green energy business, with innovations like Britain's first Green Gasmill and the expansion of its Sky Mining facility.

GRIDSERVE took an initial 25% stake in the Electric Highway in March this year, with the launch of the UK's largest high-power motorway charging facility following soon after at Moto's new flagship Rugby services on the M6. Just three months after the initial investment, GRIDSERVE took the remaining 75% stake in the Electric Highway, with plans to replace all the existing pumps on the network with new technology that features all the latest advances – including contactless payment.

"Many investors are coming downstream to invest at a much earlier stage in the project lifecycle."

Co-location investment models | a view from Peter Sermon, Senior Director at JLL Corporate and Financial Advisory Energy and Infrastructure

One of the growing trends is a move towards co-location of solar with battery storage. Developers are actively pursuing co-location wherever they can secure the import capacity. However, there is also a move to developers applying for planning with a battery storage allocation in their solar project, even if they currently don't have the import capacity, as a way of future-proofing the site so they can add battery storage should that import capacity become available at a later date.

This approach is mirrored by investors. They have a primary driver to mitigate solar price cannibalisation and the hedge against falling capture prices by having co-located storage. That said, there are other additional benefits which make co-locating these two asset classes together an attractive proposition for investors. For example, the potential to further oversize the solar DC capacity, and share some of the capex and opex costs between the two assets, improves the financial model.

With the investor market getting ever more competitive, it is likely that there will be more investor interest in these projects throughout the year and beyond.

Multi-technology projects

An essential part of the UK's journey to net zero is providing the grid flexibility that will enable the deployment of both mainstream technologies, such as onshore wind and solar, and new technologies, such as green hydrogen.

However, from an investor point of view, the move away from funding more traditional technologies - especially those backed by subsidies - raises issues around the certainty of revenue streams. Take battery storage for example; these projects have a completely different revenue structure which can include stacked revenues that are not guaranteed to the same extent. Then, if the project is structured as solar co-located with battery storage, the complexity of revenue streams increase even more. We should therefore consider what needs to be done to make these projects investable.

Revenue structures

An essential part of making multi-technology projects investable is making sure that the co-located assets are each financially viable in their own right and have their own revenue models. While this is a very nascent market, investors will buy into the longer-term projections and hedge against the protection that co-location can deliver from cannibalisation. In addition, there is an increasing understanding that the cost-efficiencies between the assets can boost the return model of both assets.

However, that does not mitigate the need for the assets to work on a stand-alone basis. The project will not be viable if the generation asset does not work on its own merits and there is the assumption that the battery asset will compensate for any shortfall. An investor is going to want certainty that the assets can operate and deliver returns or they may question the viability of co-locating versus investing in the individual assets as separate projects.

The underlying principles

There are some basic legal principles that will help with the viability of these projects. Making sure that the property documents allow for the potential to add a battery onto the project either from the outset or at a later stage is an essential future-proofing device. As is obtaining planning permission which will allow for the addition of other technologies at any stage of the project – though it is important to keep in mind the DCO threshold.

Grid capacity is another consideration, and while it may not be the intent to add battery storage from day one, there needs to be sufficient import and export capacity to add extra technology at a future date.

The construction and maintenance contracts for multi-technology projects are also key. A specialist counterparty to a maintenance contract may be suitable for the solar element of the project but they may not necessarily be the right specialist for the construction or maintenance of a battery project. Each technology has its own nuances and if the project is going be investable, these need to be reflected in the contractual arrangements.

Business interruption insurance also needs to be in place. In the event that one technology kicks out the other co-located technology there needs to be an insurance product in place which will cover this scenario.

There are a lot of elements to think about, but if the project is future-proofed from the outset and scoped with the requirements of a future investor in mind, then that not only creates more flexibility but also enables the developer to secure a better price if, or when, they take the project to market.

A note on retrofit

It is worth noting that when looking to retrofit a site - for example adding battery storage to a generation project that currently benefits from subsidies - this needs to be carefully structured to ensure that the retrofitting does affect the subsidies that currently apply to the scheme. For example, if you are adding a battery storage asset, the metering needs to stack-up to evidence what is actually being generated and exported from the solar asset.

In addition, it is important to ensure that the lease provisions can accommodate the additional assets. This may not always be the case, meaning that the developer would need to look to vary the terms of the lease with the landowner to allow the co-location of storage with the existing assets before the co-location can proceed. While there is likely to be a cost associated with this, the cost could be outweighed by the additional revenue that can be generated by the asset extension.

Asset life extension

Innovations in wind and solar technology have expanded the operational life of projects. Developers and investors can maximise the value of their projects by extending the project lease and the planning permission beyond the envisaged terms. This is a trend that is being applied to operational projects but equally it is something which should be considered when future-proofing new projects – the lease and planning should align and cover the full useful life of a project plus an appropriate decommissioning period.

Investors are having to factor in the value of an asset life extension into any bid price to remain as competitive as they can.

Mitigating risk

It goes without saying that the earlier an investor comes into a project, the more risk that carries – particularly also if this exposes them to the construction phase which is the most expensive and high risk phase in terms of impacting on returns.

As part of entering the project lifecycle at an earlier stage, investors are increasingly looking to partner in a joint venture with developers. This can be beneficial to both partners. The investor has the opportunity to secure a pipeline of projects that benefit from economies of scale, such as competitive pricing and use of template documents, and they get to work with a developer who has experience of putting development assets together, while the developer has a committed funding partner.

The key to making these partnerships viable and to mitigate risk, alongside the usual recommendation of having good quality advisors, is to work with an experienced development partner who has structured their portfolio in a commercial, bankable manner, who fully understands the technologies involved and how to maximise the revenues, and has good track record. In addition, developing a portfolio of projects allows the risk to be spread across the portfolio – which might include both performing and underperforming sites – rather than just focusing the opportunity, and risk, on one site.

Deal highlight

TLT advised longstanding client Blackfinch Energy, a leading investor in renewable energy and energy infrastructure products, on the acquisition of two new wind energy sites in Scotland.

The two sites were acquired through Blackfinch's energy investment holding company Sedgwick Trading Ltd. Their addition to Blackfinch's portfolio represents further growth for the company, with its total annual renewable energy generation capacity growing to approximately 104 Gigawatt hours (GWh) across 49 individual sites and installations.

The first project is an operating onshore wind farm that has already been issued with a Renewables Obligation Certificate (ROC) from Ofgem, and is generating approximately 17.87 GWh of electricity annually.

The second project is Blackfinch's first subsidy-free onshore wind development project, and features two of the most efficient onshore wind turbines designed by Enercon. The wind farm is expected to generate 14.55 GWh of electricity annually, and the turbines are set to be connected to the National Grid by the end of Q1 2022.

Alternative investment models

For subsidy-free projects, merchant price exposure is a key risk to any investor. The bond-like nature of a subsidised project that has traditionally been highly attractive in the renewables sector is now historic and investors need to get comfortable that the value of their projects depend on future electricity market prices.

One way to mitigate this risk is via a long term corporate PPA to provide a long term, stable and predictable revenue stream. The downside, however, is that the corporate PPA market is still developing and there are significantly more projects coming on-stream than there are corporate PPA opportunities. Hopefully as more companies pledge to be carbon neutral, we may see a snowball effect in the corporate PPA market but until then, the opportunity to secure a corporate PPA is limited.

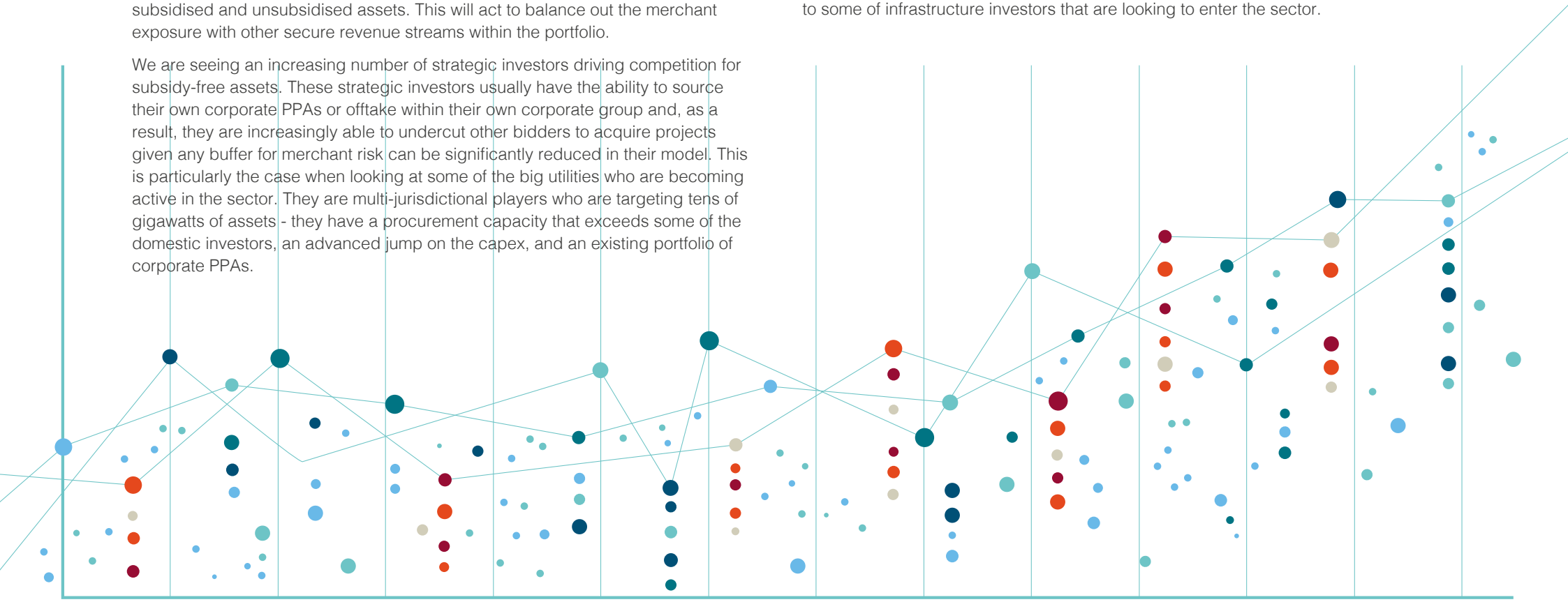
Another way to mitigate the merchant risk is to build a portfolio with a mix of subsidised and unsubsidised assets. This will act to balance out the merchant exposure with other secure revenue streams within the portfolio.

We are seeing an increasing number of strategic investors driving competition for subsidy-free assets. These strategic investors usually have the ability to source their own corporate PPAs or offtake within their own corporate group and, as a result, they are increasingly able to undercut other bidders to acquire projects given any buffer for merchant risk can be significantly reduced in their model. This is particularly the case when looking at some of the big utilities who are becoming active in the sector. They are multi-jurisdictional players who are targeting tens of gigawatts of assets - they have a procurement capacity that exceeds some of the domestic investors, an advanced jump on the capex, and an existing portfolio of corporate PPAs.

While this may mean that they can price more aggressively, the terms they offer may be rather inflexible and not suitable for every developer, so domestic investors are still well placed to compete by looking to additional value and more aggressive modelling assumptions.

Battery storage projects are also benefiting from investors increasingly taking merchant risk, particularly from investors who have been operating in the market for some time and have experience of trading these assets, who understand their flexibility and reliability, and the returns that can be achieved.

The battery storage market is also being fuelled from the emergence of 18 month to 2 year PPA products from the larger off-takers. While this type of PPA does not provide the same guaranteed level of return that you would get with a solar project, it does provide more security and on larger projects comes close to covering the capex thus proving downside protection – something which is particularly important to some of infrastructure investors that are looking to enter the sector.



Attracting investors

With investors and developers partnering at a much earlier stage, it is important to get the fundamentals of the project right in order attract an investor who will work in active partnership to deliver the project portfolio. This means that from early development stage, the project and site need to fit with market demand – current and future. Failure to do so can be costly in terms of both capital and reputation.

Size and site-specific economics are important, as are irradiance and duration for stand-alone or combined battery sites. Particularly with 50MW sites becoming the market standard and investors looking to sites which have a minimum of two-hour duration from the outset and the ability to augment to a longer duration so they are compatible with evolving merchant trading.

It is also essential to understand the revenue model - particularly on a battery storage project where a portfolio needs to include sites that have some revenue differentiation - or the development will be at a disadvantage relative to other projects in the market.

Moving through into development stage, the key to attracting investor interest is to ensure that all project milestones and related documents have been secured and can be evidenced: that the project is housed in a standalone clean SPV; grid offers have been accepted with proof of deposit; that the real estate aspects such as planning consent, lease options and wayleaves are in place; that the lease is bankable and in line with market mean, and so on. This may seem obvious but not having the right documentation in place can really trip up an investment.

It is worth noting that while 40 years has already become the standard lease term of solar projects, investors are starting to look at a similar term for battery storage projects. Being aware of developments like this is key to future proofing projects against market changes, and making them investable.

The last piece of the puzzle is developer reputation. An investor would always rather partner with a recognised developer who has a reputation for good quality project delivery rather than an unknown or untested party. Therefore, having a good reputation as a developer who knows what they are doing, who does not cut any corners, who has good project modelling and ensures that their documentation is bankable and in the right SPV name, is very valuable.

Deal highlight

TLT advised the SWEN Impact Fund for Transition (SWIFT), managed by SWEN Capital Partners, on its investment in two anaerobic digestion plants in the UK, as part of its rapid portfolio expansion.

The first project involved the investment in and development of an anaerobic digestion plant and biogas upgrading facility at Stanton Energy Plant in Derbyshire. The second project saw SWIFT invest in Charlton Park Biogas Limited alongside co-shareholders Host and RAW Energy, for the boimethane to grid anaerobic digestion project located in the South West of England.

Both projects are quickly moving to the design and construction phase, and are aiming to achieve the first gas injection in March 2022, delivering reliable and performing biomethane facilities that are set to make a real impact in the fight against climate change.

SWIFT, the first investment fund in Europe dedicated to green gases, took a majority stake in both projects.

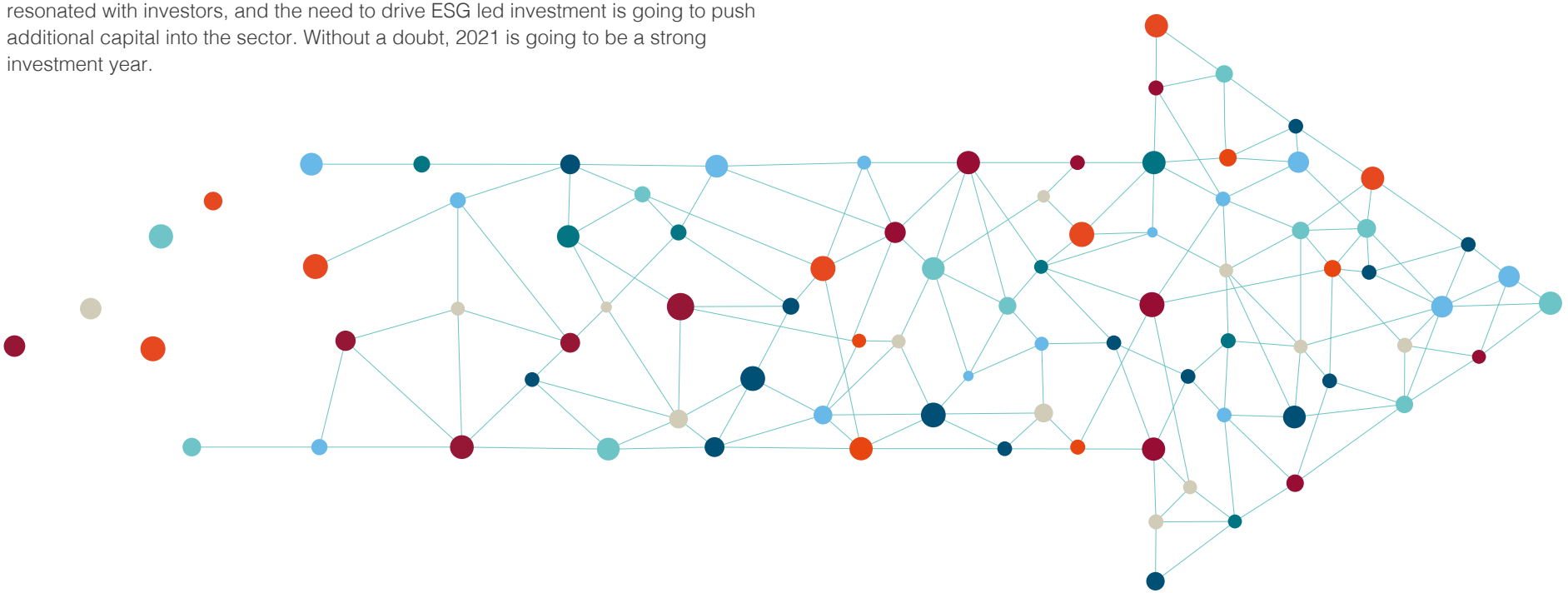
"TLT has been ranked one of the most active clean energy advisers in the world for the fifth consecutive year by leading trade publication Clean Energy Pipeline."

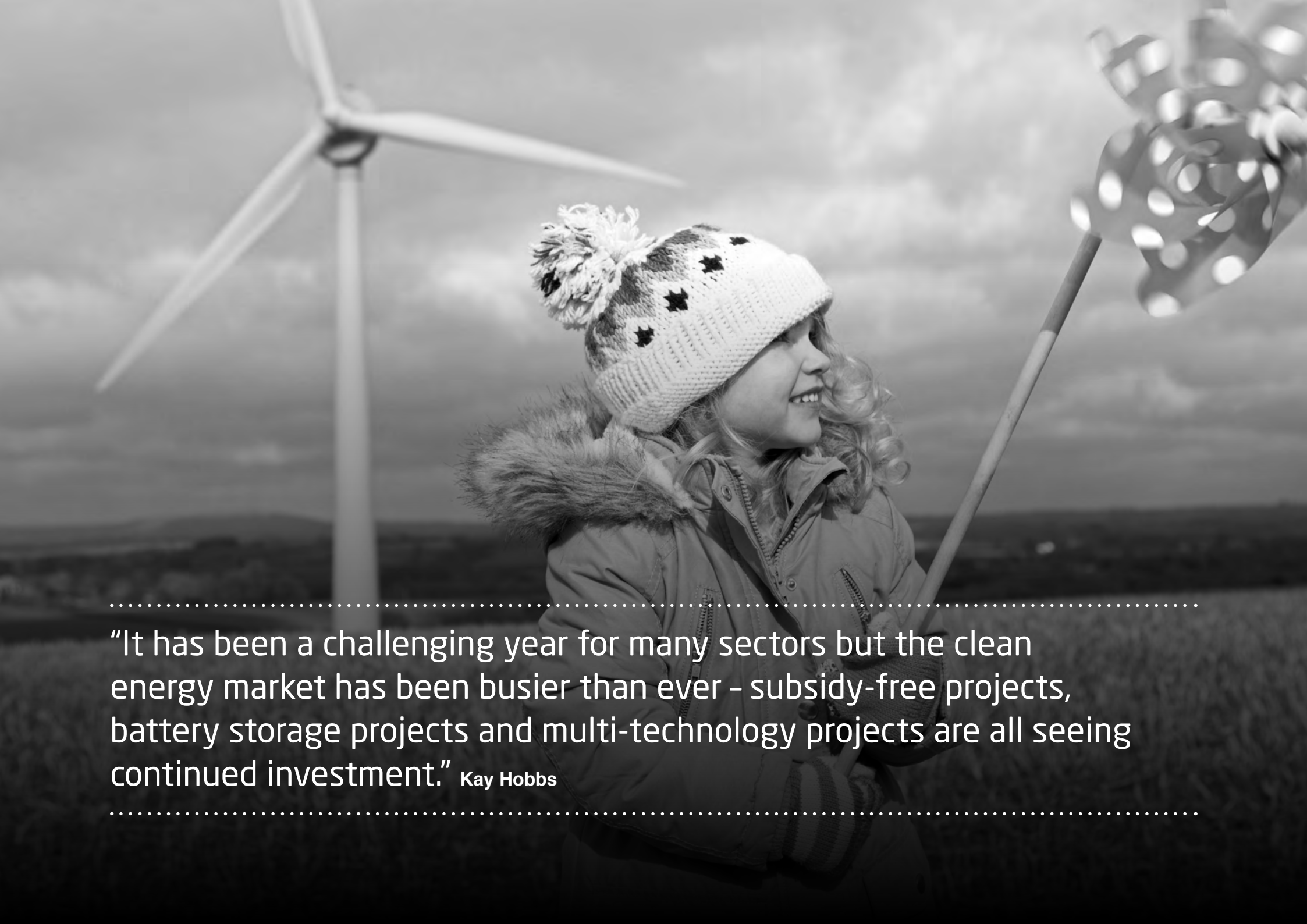
Looking to the future

The first half of 2021 has continued to see high levels of investment, especially in solar and battery and particularly in respect of investor/developer joint venture relationships. Increased investor appetite continues to push up project values.

We are likely to see this trend continue through 2021 and beyond. The forecast for solar and storage is strong, and a lot of capacity is maturing and coming out of the planning phase, so this is likely to drive an increase in transactions at the ready-to-build stage alongside construction financing.

In addition, the media is focused on the UK's low carbon future and green recovery which, combined with COP26, is only going to increase the spotlight on clean energy generation and the role it has to play in achieving these goals. This has resonated with investors, and the need to drive ESG led investment is going to push additional capital into the sector. Without a doubt, 2021 is going to be a strong investment year.





"It has been a challenging year for many sectors but the clean energy market has been busier than ever – subsidy-free projects, battery storage projects and multi-technology projects are all seeing continued investment." **Kay Hobbs**

The banking and finance market

At the end of 2020, the Committee on Climate Change published the Sixth Carbon Budget. This sets out the rate of emission cuts that the UK needs to pursue in the 2030s to stay on course for net zero. In this Budget, the Committee highlighted that annual low carbon investment in the UK will need to reach £50bn to put the UK on track for net zero, and that the vast majority of that investment is going to come from the private sector.

It is clear that there is a significant opportunity for funders to take advantage of sector growth. With lenders looking for a higher return than they would receive from more conventional investment opportunities, there is an increasing amount of new capital entering the debt finance market.

Previously the reserve of clearing banks and other more traditional financial institutions, new entrants such as global pension funds have increased competition - particularly for more traditional assets such as solar and onshore wind which are proven technologies, come with a support mechanism, and offer an attractive return.

This increased competition also means that lenders may need to diversify lending portfolios into developing technologies such as energy storage, green hydrogen and electric vehicle charging infrastructure (EVCI) as well as subsidy-free solar, on-shore wind or multi-technology projects (solar or wind plus storage). The challenge facing lenders is to create products that can accommodate merchant risk and the uncertainty that comes with forward-looking power prices.

We are already seeing some of these first products being developed. At the end of 2020 a project-finance funding model which uses a multi-tranche debt structure that matches the tiered risk profile of the revenue model came to the market. Given the critical role energy storage will play in balancing the increase in clean energy generation on the grid, this is a key step to unlocking a funding channel for this technology and placing it on the same footing as more established technologies such as onshore wind and solar.

As the UK moves towards its vehicle electrification target of 2030, there has been a sharp rise in electric vehicle sales. Along with it comes an increase in electric vehicle charging infrastructure, particularly across the public, retail and leisure sectors, as well as the development of new concepts such as electric forecourts. The initial debt funding of these schemes has very much been on a scheme-by-scheme basis due to their complex nature, but there is a significant opportunity for funders to take advantage of this growing area. As revenue streams become more sustainable due to usage increase and a rise in partnership arrangements, the opportunities are expected to grow.

Achieving net zero has put a spotlight on the role of clean energy generation. Driven in part by the challenges of modelling projects in a subsidy-free era, there is a growing trend to develop large-scale multi-technology projects that combine solar (or onshore wind) with energy storage (and EVCI) and private wire or corporate PPAs as a future-proofing mechanism. These schemes will play an important role in achieving net zero and offer large energy users decarbonised power. Funders are aware that for solar and onshore wind “plus storage” is the future of the market, and it is likely that the coming months will see the first subsidy-free solar plus storage debt solutions.

There also continues to be a fertile ground for debt solutions for more established technologies such as hydro and biomass. In addition, the development of nascent technologies including green hydrogen, floating wind and pumped storage are also driving the sector. While investment in these areas is mainly an equity play at present, we are likely to see more funding models being developed as more schemes come to market and revenue streams are proven.

Deal highlight

TLT supported Innova Energy with a £30m refinancing of its 57MW portfolio of UK rooftop and ground-mounted solar PV projects.

The transaction was financed by NatWest using SONIA (the Sterling Overnight Index Average) as its reference rate and was the first SONIA based project finance facility to be made available by NatWest, as well as being one of the first in the market. This was a significant step for NatWest who is leading the way in offering alternatives to LIBOR, with the discontinuation of LIBOR expected at the end of 2021.

This was a complex portfolio transaction from a project perspective, and an interesting one given it was one of the first projects to receive financing using SONIA as the reference rate, an approach that is only set to gather momentum as the market moves away from LIBOR to risk-free rates.

Mitigating merchant risk

Without a Feed-in Tariff (FIT), Renewable Obligation Certificate (ROC) or Renewable Heat Incentive (RHI) that enables the funder to effectivity establish a floor revenue for the relevant technology, funding in a subsidy-free market needs a completely different set of product solutions. The challenge has been quantifying merchant risk – average output may be a known factor but the power price is a variable.

There are already products on the market which introduce merchant revenue alongside contracted revenue to maximise debt. The viability of these products has been tested for energy storage but in order for them to be deployed more widely there needs to be a more collaborative approach between equity and debt, a realisation that the timeline returns associated with more traditional clean energy lends may need to be flexed, and have an underpinning strategy which mitigates risk.

Risk could be mitigated via a corporate PPA that has a floor price in it. However, with this model not only does the off-taker take the bulk of the risk but they also need to have sufficient financial standing that the bank is comfortable with the PPA as a counterparty. To be viable, an investment grade off-taker is required and, while there are off-takers at this level who are prepared to provide a floor price corporate PPA, they are not yet common place enough to provide a solution that unlocks the subsidy-free lending space.

Another solution is to change the term of the debt so that it is over a longer period, but this also comes with challenges because of the cost of capital that longer term funding carries.

Cash sweeps could be also included. The project will have periods of generation and revenue peaks in it and including a suitable cash sweep can help the bank manage the repayment profile. Rather than allowing cash to accumulate and be available for distribution in the normal manner with the cash leaving the project, a cash sweep could ensure the debt is serviced when the project goes into a low generation or low power price period. The challenge here is to balance the bank's requirement against investors expected return on investment.

Portfolio diversification is also a good way of mitigating risk. A portfolio of projects which is a mix of subsidised and subsidy-free projects may be easier to fund as the Bank can look to shape a debt solution that is fit for that particular purpose.

The ESG agenda

The Environmental, Social, and Corporate Governance (ESG) agenda has come to the fore in recent months and some lenders are developing different structures as part of their ESG anticipations and requirements. For example, one particular structure that is on the market is provided by Santander and allocates different tranches of capital for subsidy-free projects.

To the extent there is a contractual component of revenue which can be identified in the traditional way, then there will be one tranche of capital that attracts a particular pricing, and general structure. However, for the subsidy-free component there will be a separate tranche. This effectively introduces an element of structured finance that can secure additional debt.

This type of modelling has already proven to be an effective solution in a number of cases, and the key to funding subsidy-free projects could be leveraging debt in this manner.

Deal highlight

TLT advised Santander UK on its £12m financing of a flagship 30MW battery storage project, operated by Still Waters Green Technology (SWGT).

The financing, which was delivered under Santander's Environmental & Social Growth Fund structure delivers optimal leverage against both contracted and fully merchant revenue streams to maximise debt. It was the first project finance funding structure that adopted a multi debt tranche approach to the tiered risk profile of the battery energy storage system revenue model.

SWGT acquired the right to develop the 30MW subsidy-free battery storage asset in Swindon in 2018, and subsequently completed the design and procurement required to construct the project.

Project considerations

In a competitive market funders can still be relatively selective, so it is important that the project has a clear proposition for the funder. With market reputation and project bankability playing an equally important part in the drive to deploy capital, the onus is on the developer to bring good quality projects to market – in doing so they will secure economically priced debt.

The funder is going to be considering the returns, which in a competitive market are not as high as they might be for other asset classes, and they will want to mitigate risk by ensuring that the project, as far as possible, meets all of the project finance requirements. It is important to remember that the inherent nature of project finance means that there is no residual value in the assets themselves, the value is tied to the integrity of the project rights and authorisations, the quality of the contracts and the allocation of risk in them. If a project has been assembled properly with fair and market facing allocation of risk, then it offers the funder a clear proposition.

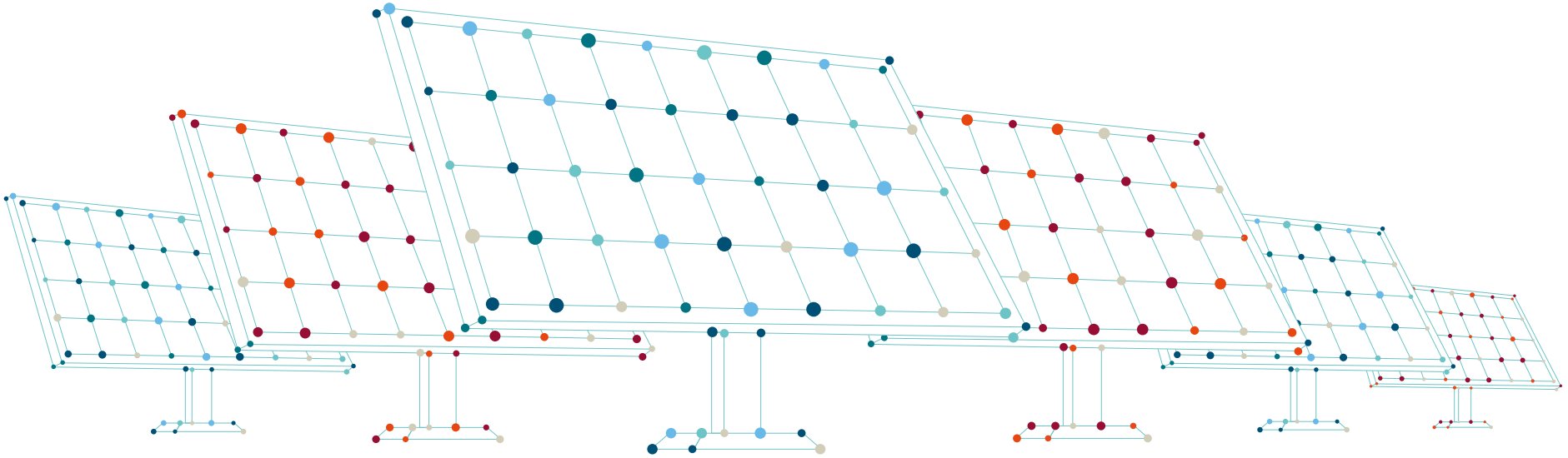
Another key element to consider is banking due diligence. Whether acquiring a project, building a project on balance sheet or working towards a potential exit, any funding which would involve a bank or project finance solution will require the project to go through banking due diligence, and the project needs to be credible, accountable and structured in such a way that it meets this fundamental requirement.

Deal highlight

TLT advised renewable energy investor Thrive Renewables on its first commercial rooftop solar initiative, enabling businesses to install solar panels and use the renewable power they generate.

Thrive joined forces with solar expert Olympus Power, developing a new financing framework which provided the funding for Olympus to install hundreds of commercial solar arrays. Olympus is looking to fund up to £75m of commercial solar installations to help businesses cut carbon emissions.

This was Thrive's first solar roof initiative, building on its 'direct wire' approach where businesses benefit financially and environmentally from the electricity they generate on site.



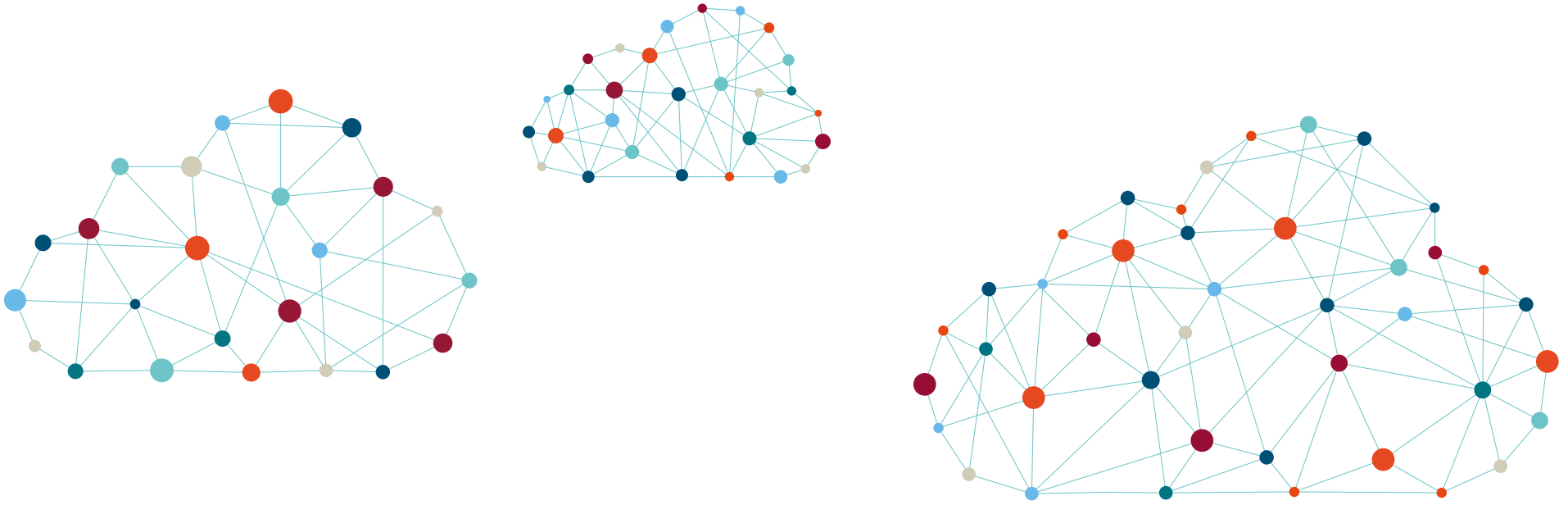
A bright future

Increased capital has increased competition, but at the same time the market is developing and as new solutions are launched the proposition of debt funding subsidy-free projects and new technologies will become common place.

In order to accelerate this, equity investors and banks need to work collaboratively and compromise on risk and return on investment. Take cash sweeps, for example, which could provide a debt solution but only if the equity investor is willing to accept that they may not be able to access cash from the project at the same point that they have historically. Or it could be recognising that the bank is not going to bring an 80/20 deal split to the table when there is merchant risk at play.

However, with compromise, the market will be able to deliver products which can fund the array of projects which are needed to decarbonise the UK. That is very much the direction in which we expect the market to develop over the coming months.

> "...the market will be able to deliver products which can fund the array of projects which are needed to decarbonise the UK."



‘...equity investors and banks need to work collaboratively and compromise on risk and return on investment.’

Northern Ireland market overview

Investment appetite remains strong for clean energy generation projects in Northern Ireland (NI) with a particular focus on energised, ROC accredited wind assets, and portfolios of single turbine sites this year. This is partly because private equity funds with long holding periods continue to be particularly active in this space, given the number of years left to run in the NI ROC scheme and the prospects for repowering to increase yields. In addition, subsidised anaerobic digestions plants are also a popular investment.

There are a number of drivers which make it inevitable that investors will start to look at newer technologies to ensure they can continue to deploy and recycle capital. The lack of any new subsidies means that competition for existing subsidised projects is extremely fierce. Increasingly, investors with longer term holding periods are purchasing meaning that that fewer projects will come to market and the prices for those that do are being pushed up, squeezing margins. That said, there remains strong interest in the potential for subsidy-free projects, but the extent of growth in new developments will inevitably be driven by revised energy policy, which is expected to be published in draft later in 2021.

Deal highlight

TLT advised Alpha Real Renewables on its entry into the Northern Ireland (NI) energy market with the acquisition of a portfolio of NIRO accredited 250kW operational wind turbines.

The portfolio of eleven NIROC accredited wind projects is one of the largest privately owned distributed wind portfolios in Northern Ireland. Located across NI, it presented an opportunity for Alpha Real Renewables to acquire an established portfolio in what is a fragmented market. The buyer is the Wind Renewables Income Fund.

18% **of wind power in NI is effectively being thrown away...**

Energy storage is regarded as the latest investment opportunity. Commenting in the Irish Times, Dr Patrick Keatley, lecturer in Energy Policy and Infrastructure at Ulster University, stated that 18 per cent of wind power in NI is effectively being thrown away because it cannot be used at the time of generation. Placing figures on this, it was stated that wind energy worth £50 million was discarded in the first half of 2020. New technologies that solve problems like this, and can offer strong returns, will always attract investor interest. Indeed, at the end of 2020 this market saw a significant development with the energisation of a 50MW lithium-ion project in NI - the largest in NI to date, with 2 further c.50MW projects currently in the development pipeline. It is likely that in the coming months there will be more projects like this coming onto the market, albeit that clarification on the regulatory and planning status of battery storage in the region is urgently being sought by the industry in order to facilitate more rapid deployment of this technology.

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Scotland market overview

Scotland is leading the way in the development of newer technologies such as hydrogen and floating wind, and investor appetite has been quick to respond to this. There is an increasing amount of capital being deployed into nascent hydrogen projects, alongside energy storage and pumped storage. Indeed, both established funds and newer to market specialist players have recognised the importance that energy storage will play in Scotland achieving NetZero and have capitalised on the increased demand for projects.

There is still a strong market for ROC accredited wind projects both on a single site and portfolio basis. Competition for these projects is high as they represent the securest investment and we are seeing a mix of Scotland centric single site acquisitions and larger multi-jurisdictional portfolio acquisitions.

Increased competition is also driving investment into subsidy-free onshore projects, and as with other jurisdictions, investors are entering the project lifecycle at a much earlier stage, taking development or construction risk. This is a trend we would expect to see continue over coming months and one which is likely to also drive the development of multi-technology projects which combine onshore wind with energy storage in order to provide investors with more revenue certainty.

Other areas of investment include EV charging infrastructure, particularly as the 2030 deadline increases the number of EVs on the road, and charging infrastructure demand which in turn leads to easier to validate revenues. And of course off-shore wind, floating wind and hydro are also areas of investor interest, and projects which are successful in the Contracts for Difference (CfD) Allocation Round 4 could end up being heavily courted by investors looking to round out their portfolios with newer technologies which have the added security of being subsidy backed.

Deal highlight

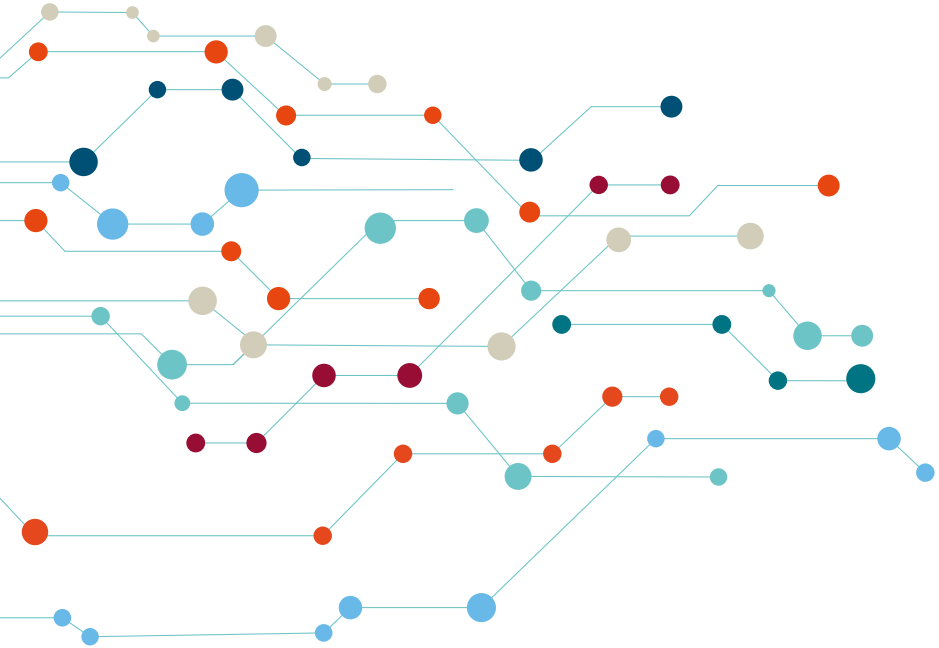
TLT advised ILI Group on the sale of a 50MW grid battery which will be built in Fife to Abbey Group Cambridgeshire and YooGen1. The sale brings the group's funded battery projects to 100MW.

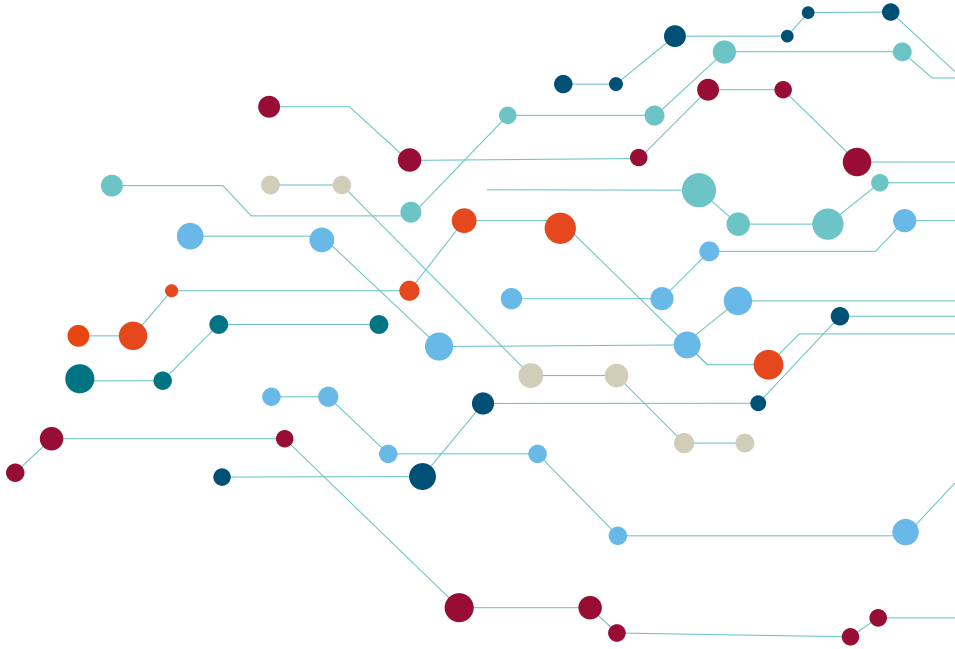
ILI Group has a development pipeline of 3GW of energy storage projects across Scotland, comprising 2GW of pumped storage hydro and 1GW of battery storage. ILI's funded battery projects total 100MW with a further 450MW that will come to market in 2021. This includes a 50MW battery storage project in Aberdeenshire, which the company gained planning consent for in February.

"There is still a strong market for ROC accredited wind projects both on a single site and portfolio basis."

Key takeaways

- The clean energy sector continues to see considerable growth. Increasing competition is driving investment in emerging technologies as well as the more established technologies such as wind and solar, and forcing investors to enter the project lifecycle at a much earlier stage, taking development or construction risk.
- Over the coming months we expect to see the market develop and deliver products which can fund the array of projects which are needed to decarbonise the UK. However, collaboration between equity investors and banks will be needed to accelerate this.
- We expect the development of multi-technology projects, which combine onshore wind with energy storage in order to provide investors with more revenue certainty, to be driven by the increased investor appetite and strong competition in the sector.
- As new investors enter the market, interest in battery storage has increased. We expect to see growing competition for battery storage projects with investors getting involved at an earlier stage, in the same way we have already seen with wind and solar.
- In Northern Ireland, energy storage is regarded as the latest investment opportunity but clarification on the regulatory and planning status of battery storage is needed in order to facilitate more rapid deployment of this technology.
- The Subsidy Control Bill could be a catalyst for the deployment of newer technologies which have a viability gap such as carbon capture and storage and hydrogen. The development of these technologies is critical to reaching net zero but support is needed for these schemes to have the same viability as more established technologies such as onshore wind and solar.





‘In order to reach the ambitious net zero targets we must see increased support and investment into clean energy technologies worldwide.’

About TLT

TLT is one of only a few UK law firms with the specialist expertise to advise on all aspects of clean energy projects across the range of technologies and project lifecycle.

Our national clean energy team has an outstanding reputation for innovation and a track record of working with some of the most entrepreneurial companies in the sector, we regularly advise on 'first of a kind' projects including subsidy-free, multi-technology, energy storage, EV charging infrastructure and cleantech.

We're regularly instructed on projects which require financing, corporate transactional, real estate, planning, grid, offtake and construction expertise. In addition, we're recognised for our expertise in specialist areas such as IP, technology, commercial dispute resolution, European grant funding, commercial partnerships and corporate and private wire arrangements.

"To meet the UK's ambitious net zero targets we must be bold and we must take action now." **Maria Connolly**

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