

# Renewable energy's changing landscape

While the number of renewable energy projects continues to grow, prudent risk management and early identification of risks is vital in order to secure finance, find the most suitable insurance and deliver better returns on investment.

By **Gail Rajgor**

**T**he world's energy production passed a turning point in 2013. Renewable electricity capacity increased by 143 gigawatts compared with 141 gigawatts of fossil fuel plant.

By 2030, more than four times as much renewable capacity will be added according to Bloomberg Business. Wind power and solar will continue to see most growth, with emerging markets set to be key growth areas, says Aaron Daniels, Consultant at project management company Modern Energy Management Co.

But while global investment in clean energy increased 16 per cent last year to \$310 billion, according to Bloomberg New Energy Finance, competition for available finance is highly competitive – particularly in emerging markets.

"To lenders and investors only projects demonstrating convincing returns on investments and a high degree of sophistication regarding the transfer of a project risk will secure favourable financing," says Poul Hansen, Head of Renewable Energy at JLT Specialty.

## New money

Renewable energy projects can potentially benefit from the current influx of new investors. Whereas previously some projects were backed by consortiums comprising of up to 30 lenders, more institutional investors are now entering the sector, says Gemma Claase, Head of Sales Operations and Strategic Insight at JLT Specialty.

But for project owners to attract these new forms of investment, they must focus on their risk management and transfer mechanisms even more rigorously than before.

"Institutional investors typically have more restrictions on the type of investments they can make, so they have smaller risk appetites and tend to want as much risk transferred as possible, even if it reduces rates on return," says Claase.

The management and transfer of a project's risks could ultimately determine whether it delivers a good return to investors. "Insurance could be a small budget item, depending on the project's size, but if you haven't planned for a major loss, the impact of such a loss could be substantial," says Claase.

As the investor landscape changes, it is more important for developers, engineers, brokers and other parties to 'mirror' investors' language and employ financial terminology – such as 'net present value' (NPV) – when discussing projects.

"Lots of investors will need to be confident that a project will provide a certain rate of return, so projects should be explained in these terms to investors, because these types of ratios and calculations determine whether an investment will take place," says Claase.

## Up-front planning

Sometimes it might be considered best for the project owner to manage insurance for the entire project, while for other projects it might be best for specific suppliers to manage their own insurance needs. "Either way, project risks need to be clearly quantified and allocated so that there are no gaps in coverage or uncertainty regarding who is liable for what," says Claase.

Simply having an EPC contract is not enough, adds Daniels. "An EPC contract allocates the risk but does not necessarily

Interest in renewable energy is only likely to increase in years ahead



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effectively manage it. To ensure there are no gaps in insurance coverage, you need project managers with experience in the industry who can think creatively about what the project specific risk profile is.

"Some risks, like serial and latent defects in turbines, are well known in wind projects and should be planned for in every contract. However, less-experienced developers in emerging markets may not realise this," notes Daniels. "Insurers are not going to absorb all of that risk."

Claase recommends assembling a team of experts with different backgrounds – ranging from project finance to legal and engineering – and stress testing different types of scenarios and modelling those scenarios' impact on the project's cash flow.

"Everything – contract, strategy, project

execution, project planning and insurance – has to be prepared thoroughly before you even issue a tender for a supply contract," Hansen adds.

Risks relating to developers, the market and technical issues need to be assessed and catered for in contracts and insurance products to ensure successful project completion to time and budget.

"This way, when a claim occurs, developers can focus on getting projects back on track and built on time, rather than three to six months lost in arbitration or legal proceedings," says Hansen.

### **Growing competition**

It's a good time for the renewable energy sector insurance-wise, as more insurers are gain experience with different types of projects

and the technology involved, and there is more historical data to base their underwriting on, says Claase.

Moreover, developments in the traditional energy market due to low oil prices, have made offering insurance for renewal energy projects seem more attractive. "This has led to more traditional energy market insurers looking to transfer their expertise into the renewable energy space, so there should be more options for buyers," Claase adds.

Despite the likely increase in premium capacity, it's important for project developers to partner with a broker that can help 'pitch' their risk to insurers, says Claase. "Brokers can help clients to understand and address insurers' red flags, and help them to expediently navigate insurers' likes and dislikes. In a fast-changing sector, this can make all the difference." **RS**



**Poul\_Hansen@jltgroup.com**

**Gail Rajgor** is a business energy and environment journalist/editor with 20 years' experience.