



IRELAND

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# Much Ado About Nothing: Brexit and energy project finance

12 April 2018

Conall Bolger

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- Power generators and project developers
- Energy suppliers
- Regulators, policy-makers and industry bodies
- Legal and financial institutions
- Intermediaries and end users
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# Introduction

1. Metrics and the Irish market for energy project finance
2. Brexit impact?
3. Market change risk

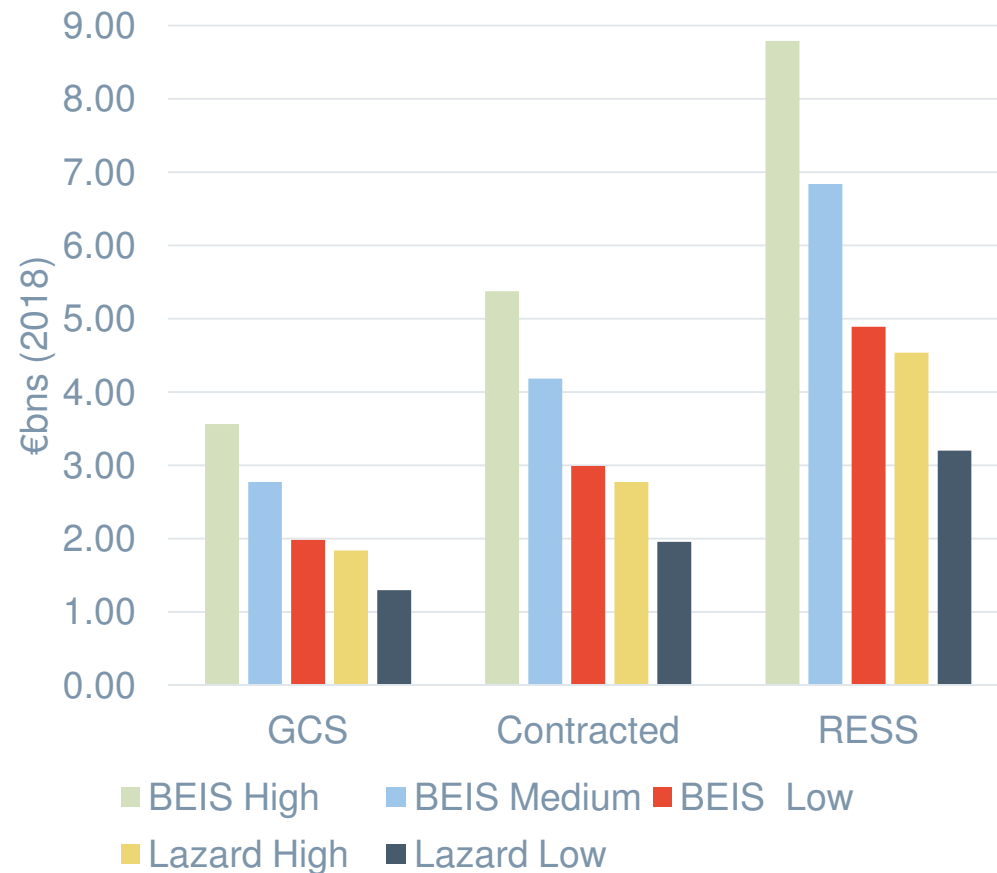
# Market metrics

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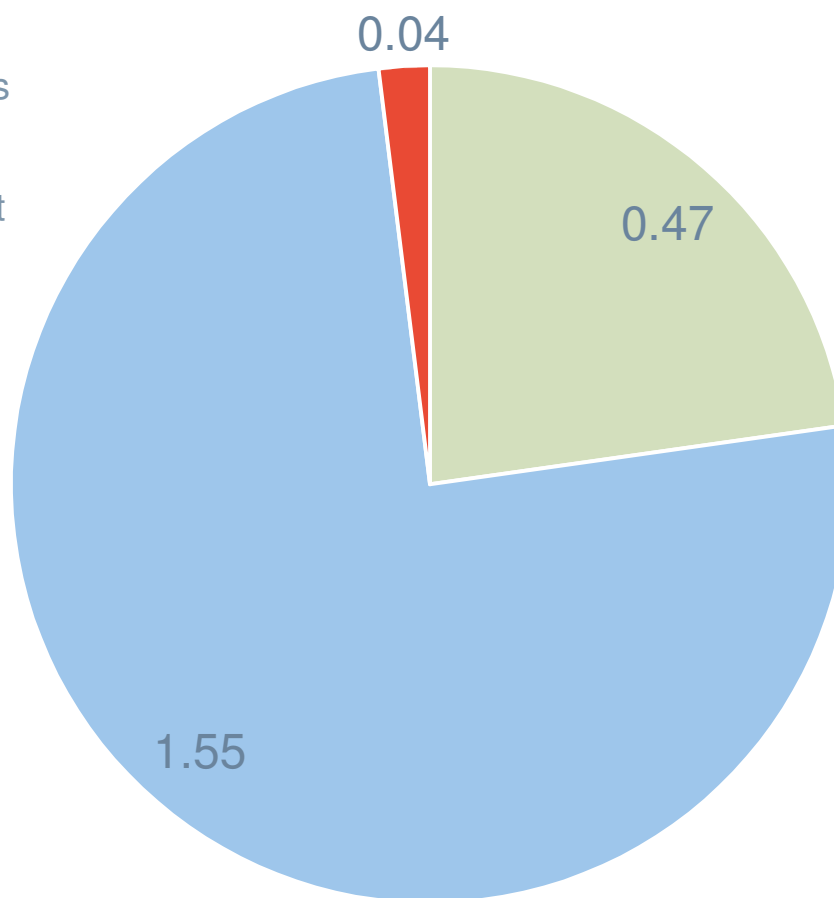
# Potential scale of wind investment



- Scenarios:
  - GCS 2017-2026
  - Contracted
  - RESS
- Averages:
  - €2.3bn-€5.7bn
- Excludes:
  - DS3 gen
  - Thermal gen
  - Other RES-E
  - Network

# EU Irish energy project funding (€bns)

- European Fund for Strategic Investments
- European Investment Bank
- Projects of Common Interest



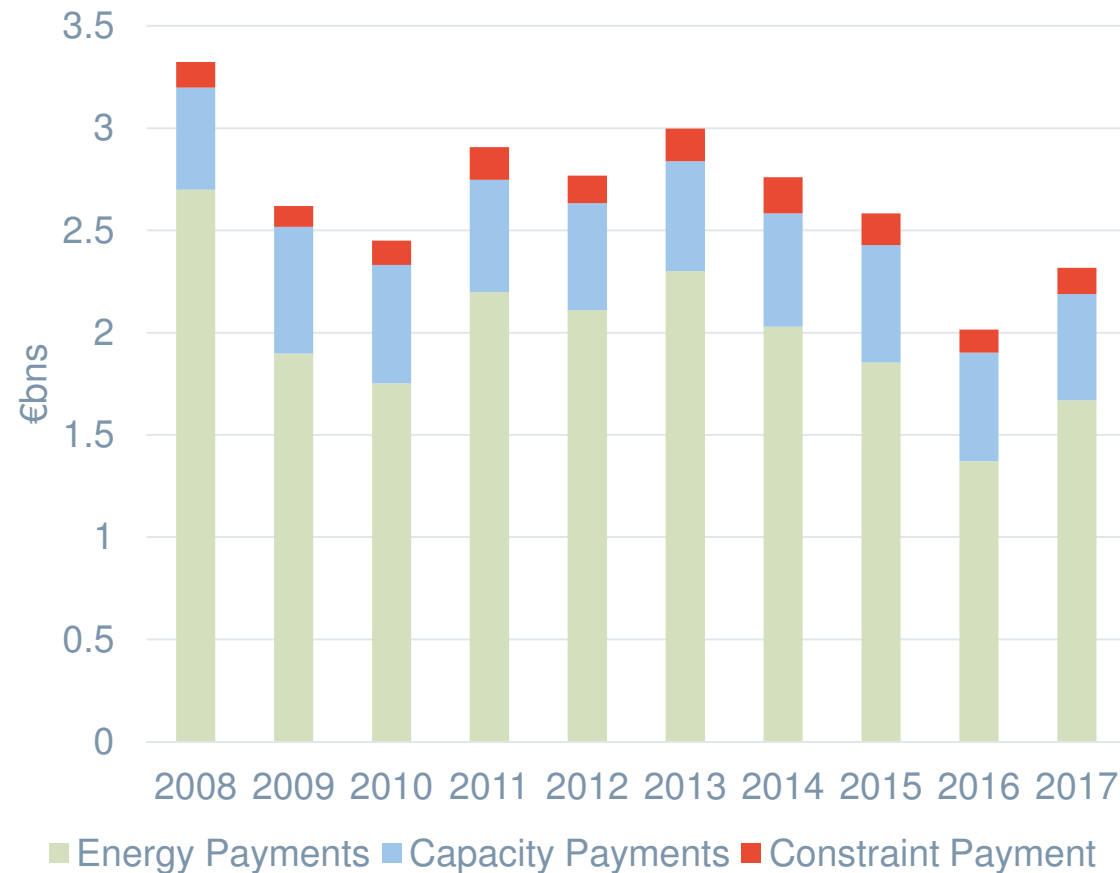
- >€1.6bn estimated
- Track record of EU investment
- UK
  - EIB - €9bn
  - EFSI - €1.8bn
  - PCIs - €125.6mn w/ €90mn in pipeline
  - EEPR - €330mn

Note: PCI & EFSI  
shared across  
jurisdictions

Source: EIB, EC

# Single Electricity Market (SEM)

- €2.6bn market
- RAs seeking to increase liquidity in I-SEM



Source: SEM-O



# Brexit impact?

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# Prophets of doom?

“In the longer term however, particularly cross-border investments involving the UK, may be hit by lower economic growth and increased uncertainty about regulation as UK and EU policy may start to diverge.”  
**PwC (2016)**

“emerging evidence – such as the surveys pointing to an investment hiatus and higher volatility in the equity market – may imply a higher equity risk premium”  
**Frontier Economics (2016)**

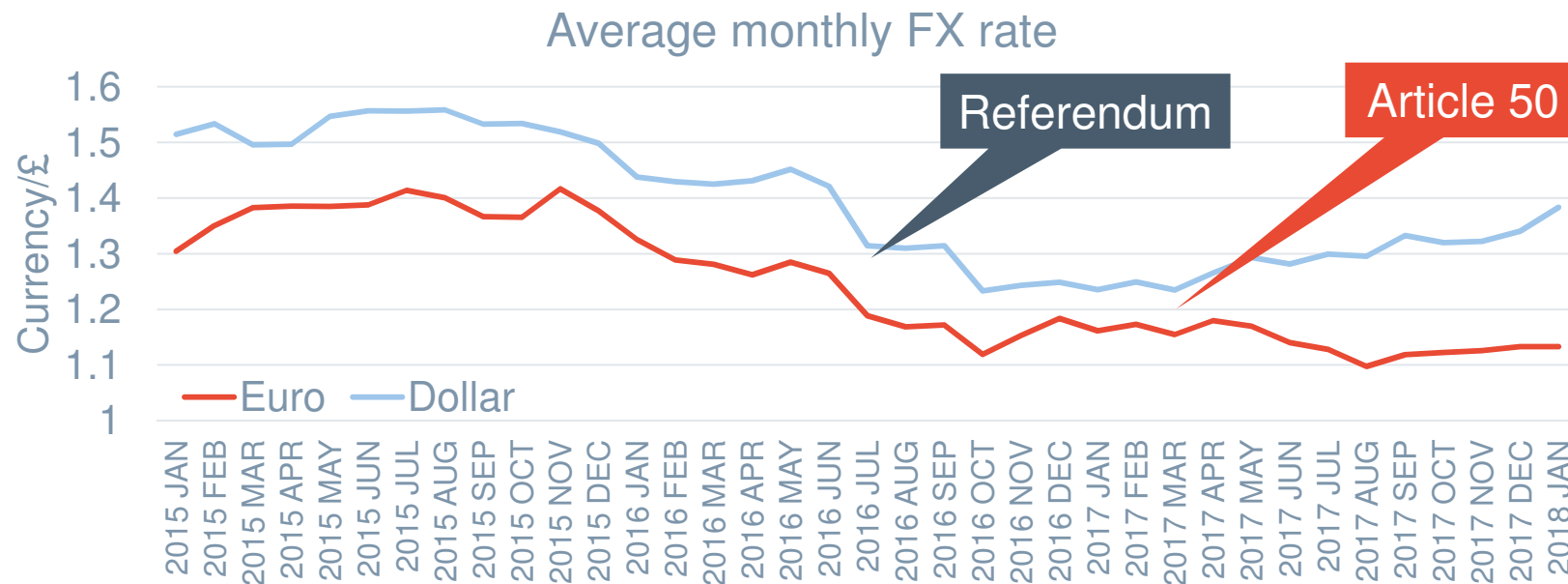
“Further impacts on the investment climate for energy assets could exacerbate the impact by up to several hundred millions of pounds and occur even if the UK stays within the IEM.”  
**National Grid (2015)**

“As well as potentially affecting access to financial services, Brexit could potentially have a more straightforward impact on the cost of capital of British companies including regulated energy networks (transmission and distribution). Brexit may have an impact on both the expected average rate and the correlation of returns on these assets with assets located elsewhere.”  
**Europe Economics (2016)**

“Without EIB support, any financing arrangements for the interconnectors will be both more difficult and more expensive.”  
**Shakespeare Martineau (2017)**

# Brexit interactions

- Engagement suggests: little evidence of Brexit risk premium for Irish assets
- Project finance risk basket: offtake/trading, technology & volume, construction & overspend
- **Indirect** impacts e.g. FX affecting build/commodity prices



Source: ONS

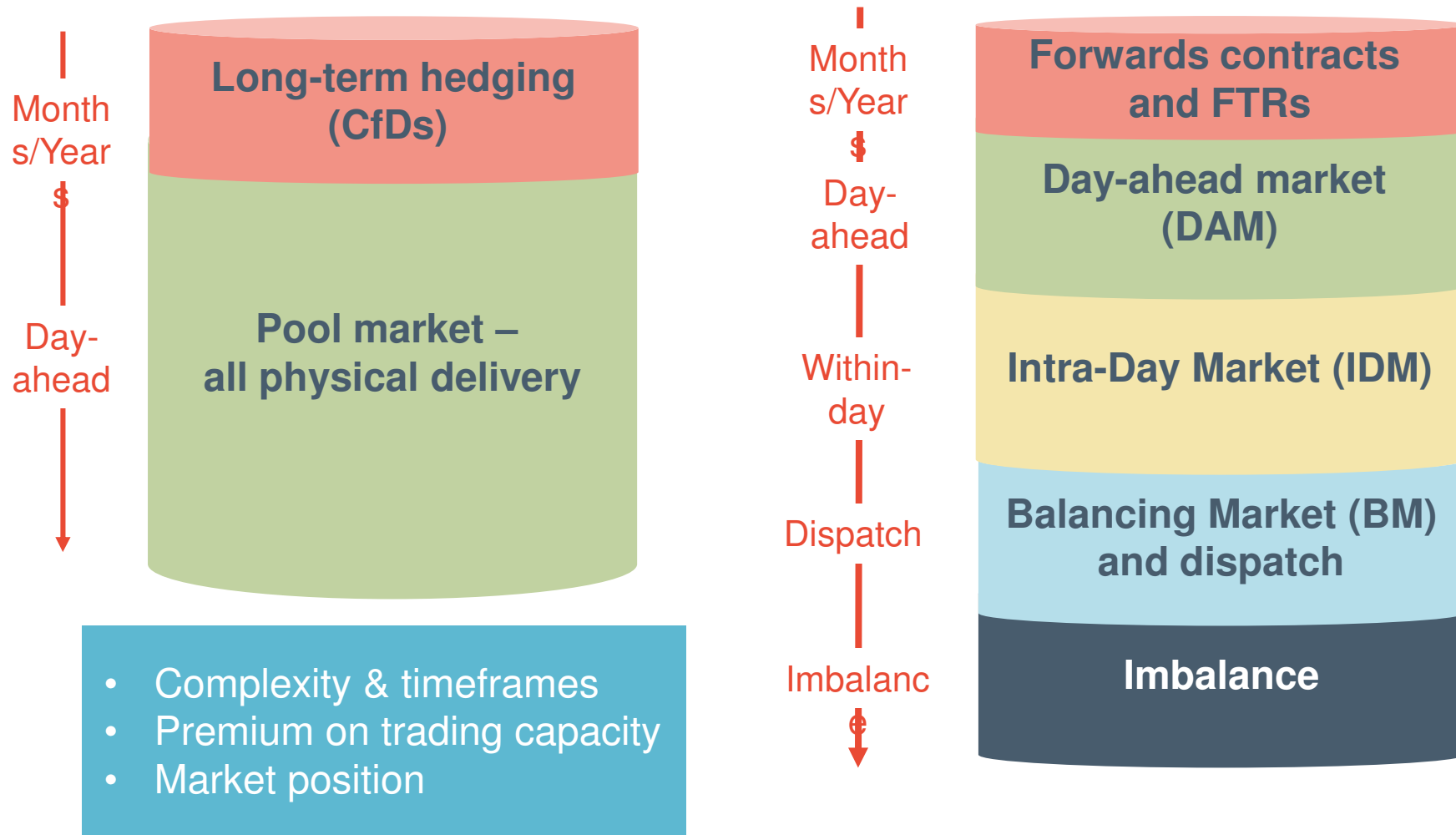
# Market change risk

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# Structural change: SEM to I-SEM





# Revenue certainty?

## Capacity Payment Mechanism (SEM)

BNE Cost (€/kW/yr)

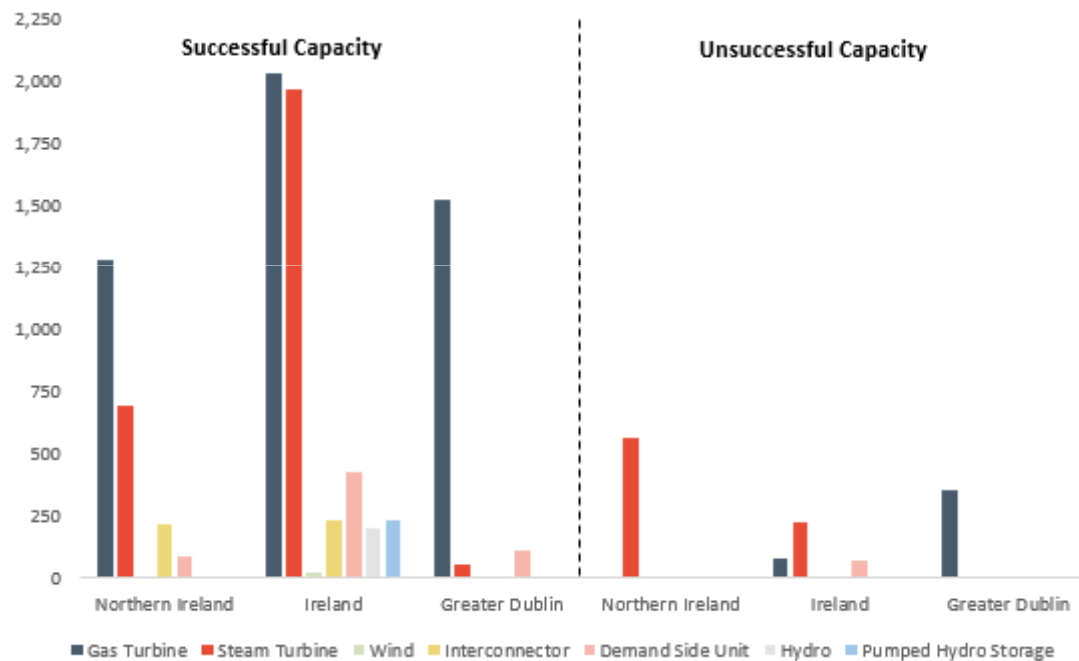
**X**

Capacity Requirement (MW)  
7,368

ACPS (€)  
546,116,160

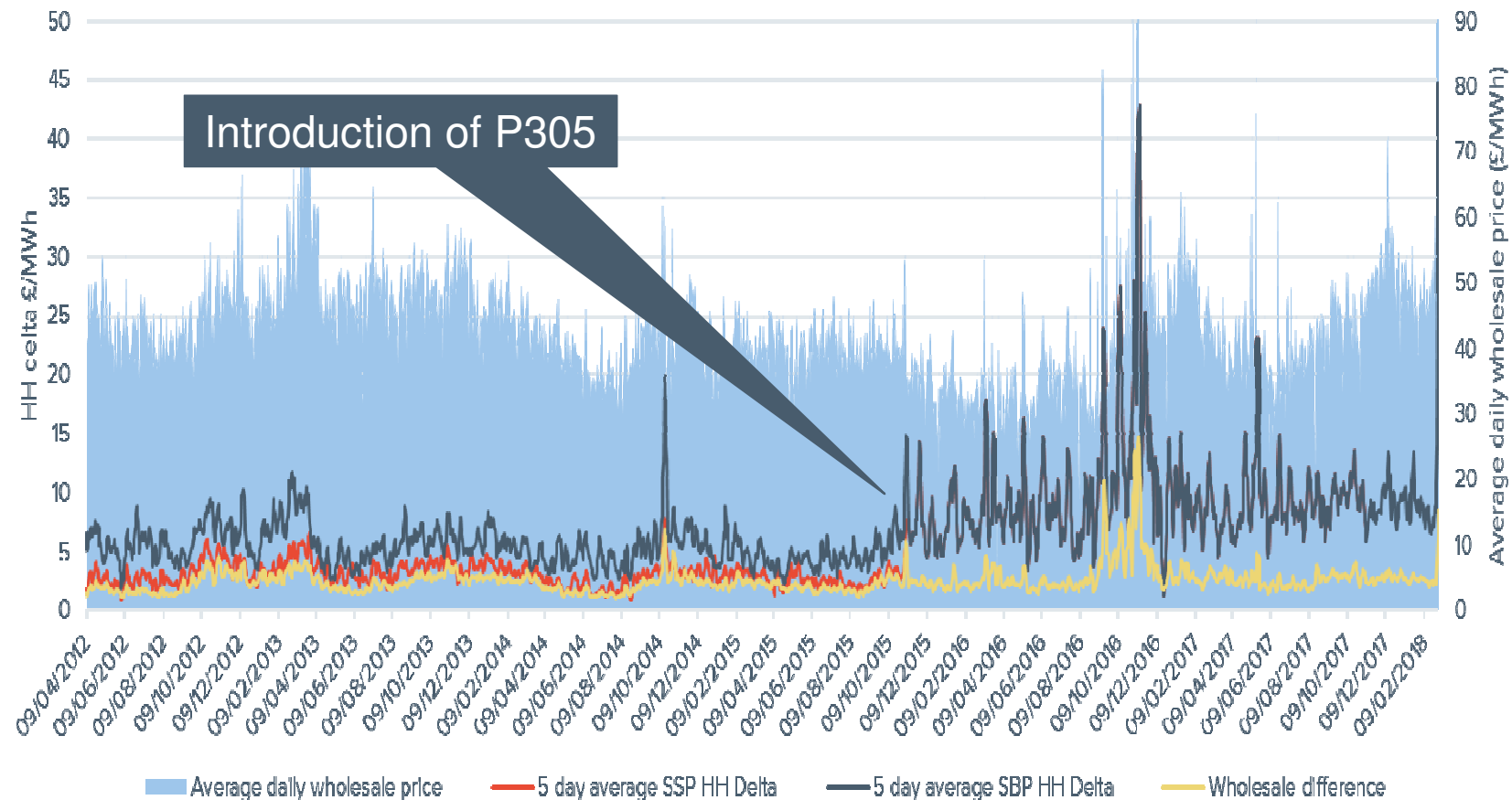
2018 BNE =  
€74.12/kW

## Capacity Remuneration Mechanism (I-SEM)



T-1 auction price =  
€41.80/kW

# Balance responsibility



- Volatility expected in imbalance pricing

# PPA renegotiations

Section	I-SEM risks
<b>1. Definitions</b>	Different offtakers and advisors will have different interpretations of I-SEM terms
<b>2. General T&amp;Cs</b>	Unchanged
<b>3. Commencement and duration</b>	Short-term PPAs at I-SEM go live to avoid risks of price lock-in
<b>4. Forecasting and metering</b>	Who takes imbalance risk? Will forecasting need to be provided by the generator?
<b>5. Force Majeure/ termination/ change in law</b>	REFIT as a potential change in law re-opener. PPAs likely to remain open until enduring decision on TMR
<b>6. Credit support</b>	Unchanged
<b>7. Assignment and transfer</b>	Unchanged
<b>8. Dispute resolution and audit</b>	Unchanged
<b>9. Pricing schedules</b>	How will imbalance risk be priced? What will reference prices be?

# Final thoughts...

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# Conclusions

- Opportunity/appetite for project finance in market
- Brexit effects likely to be indirect. Do not seem to be manifesting in project finance terms
- Wholesale market change likely to have more significant impact on revenues underpinning funding and associated arrangements (e.g. PPAs)



# Contact details



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