

Financing New Energy Assets in the Post-Credit Crunch Environment

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Abstracts

Introduction

The global financial credit crunch has made it harder to invest in new energy assets on a global scale. Understanding post-crunch investment dynamics in the energy sector is crucial if private and state utilities are to secure the necessary project finance to invest in new energy assets to cope with recovering demand in the developed world, and continuing growth in the developing world.

Scope

- Risk profiles for investing in different new energy assets
- An analysis of the impact of the global credit crunch on investment in new energy assets
- Projections of investment in different energy assets in different countries to 2030, as well as costs, implications and strategic investment factors
- Case studies of investment in new renewable power generation and new gas storage assets

Highlights

The global credit crunch has made it harder for state and private utilities to access investment finance, however investment will still primarily be driven by market fundamentals, and future revenue vs costs, regulatory and policy risks, subsidies and

market structure need to be assessed before any investment can proceed.

Investment is projected to grow significantly to 2030, facilitated by the need to keep up with growing energy demand. The US, EU, China and India are projected to have the largest increases in investment in new energy assets.

Investment in low-carbon generation i.e. renewables, nuclear, CCS, etc. will form the biggest component of investment in new energy assets to 2030. These low-carbon investments will be primarily skewed towards the EU and US where the shift to decarbonising the economy is more pronounced.

Reasons to Purchase

- Decide which types of investment are riskier than others, as well as understanding which investor is best suited to undertake that new investment
- Uncover where investment hot-spots in new energy assets are likely to occur, as well as the type and magnitude of different investments globally
- Understand how the different investment factors interact prior to any investor commencing investment in any new energy asset globally

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ANALYSIS

It is important to understand the investment environment and the fundamentals of energy project finance before an investor can rationally decide to invest in a new energy asset

The market framework for investment in new energy assets has significant implications for potential investors

A competitive market inherently carries more investment risk than a monopoly or state investment market

Investment in new energy assets is heavily dependent on the debt versus equity ratio
Investors will compare expected future revenue streams with the cost of investing in the new energy asset

When choosing to invest in any new energy asset, the investor should look at the associated risk profiles and factors which could impede its viability

Different factors affect the viability of investing in a new energy asset to varying degrees
Investment in new nuclear generation build is typically riskier than investment in gas generation

Salt cavern gas storage facilities are typically easier to finance than depleted field facilities

LNG liquefaction facilities are typically several times more expensive to fund than LNG regasification facilities

Deep water upstream oil activities are financially riskier than onshore activities

The impact of the global credit crunch between 2007-09 has had a profound impact on several investors' ability to procure the necessary levels of finance to fund new energy assets or extensions of existing ones

The global credit crunch has impacted investors' ability to fund new energy assets or extensions of existing ones

The recession led to weaker energy demand and a consequent slump in prices, making investment in energy assets less profitable

Falling energy demand has made it less urgent for suppliers to invest in new production capacity and reduced their appetite to take this risk

The impact of the global credit crunch on new thermal power generation investments: new power plant orders worldwide down by 30-50% in 2009

The impact of the global credit crunch on new renewable power generation investments: there was a drop post Q4 2008

The impact of the global credit crunch on upstream oil investments: several projects were cancelled in 2009 (1)

The post-credit-crunch landscape means that funding new energy assets could now carry more investment risk than previously, although investment will still follow market fundamentals

In the post-credit-crunch landscape, market and policy signals are still the biggest drivers of investment in new energy assets

Greater demand for power generation investments will make them more viable and profitable, helping investors secure project finance (1)

New nuclear power generation is significantly more expensive to invest in than new gas power generation

Funding power generation: EU and US rely on private firms and utilities, while China and India rely on government and state utilities

Investment in oil exploration and production is forecast to rise significantly to 2030 to keep up with growing global oil demand

OPEC countries have lower investment costs for oil exploration activities than Western Europe and North America

OPEC countries are forecast to add an extra 900,000-1,400,000 barrels per day year-on-year in extra capacity between 2010-15 (2)

Non-OPEC countries are forecast to add an extra 900,000-1,800,000 barrels per day year-on-year in extra capacity between 2010-15 (2)

Expected future investment in new gas storage facilities will be driven by a range of market, strategic and regulatory factors

The global gas glut could impact investment in new LNG terminals, but it will recover due to an expected increase in LNG demand (2)

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Ask the analyst

Datamonitor consulting

Disclaimer

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