

Feed-in Tariffs and Contracts-for- Difference:

Financing Projects with Long-Term
Price Guarantees

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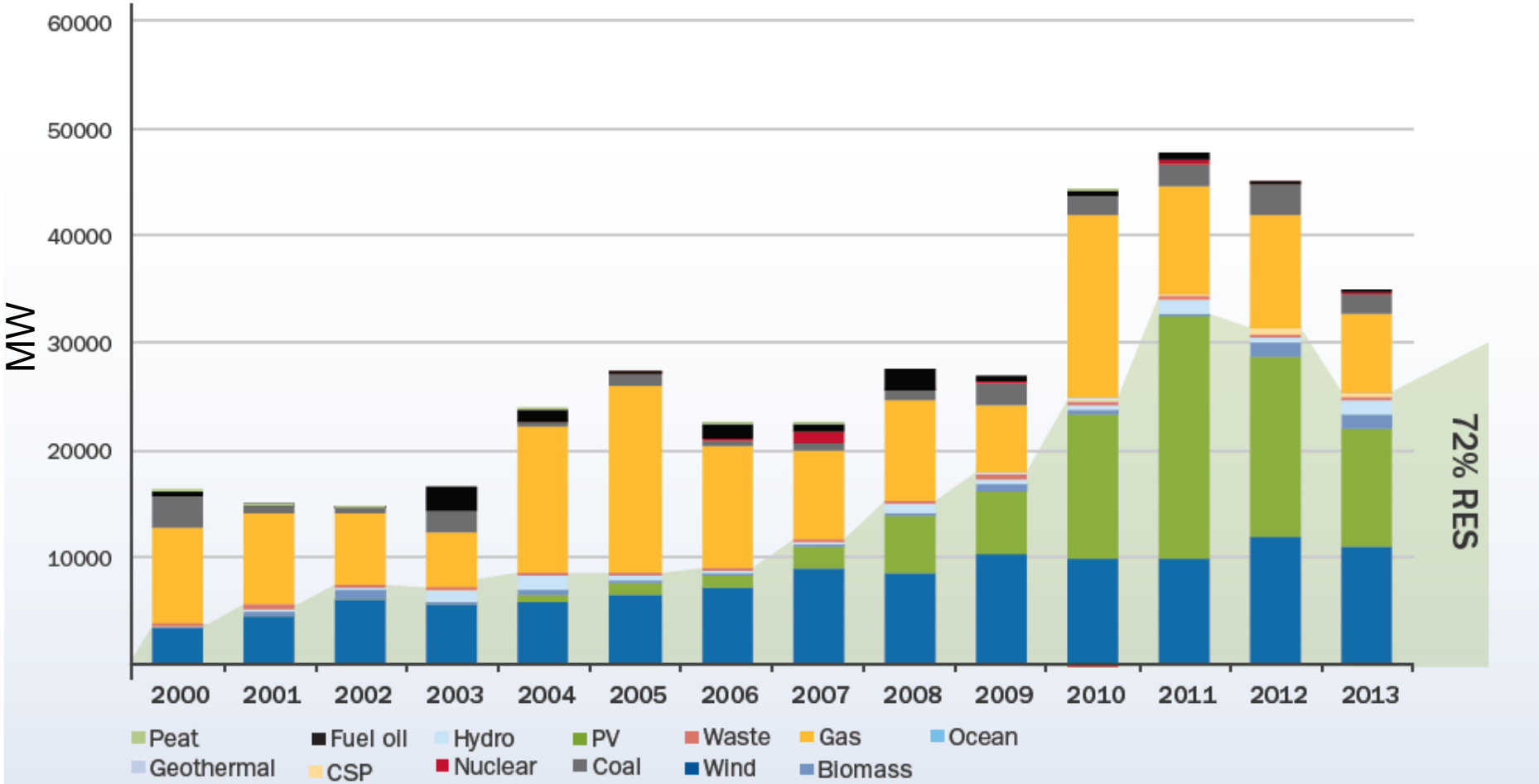
Europe's investment needs

\$1,600,000,000,000

According to one of the IEA's scenarios, \$1.6 trillion in generation investment could be needed to 2035
(some \$75 billion, or €60 billion per year)

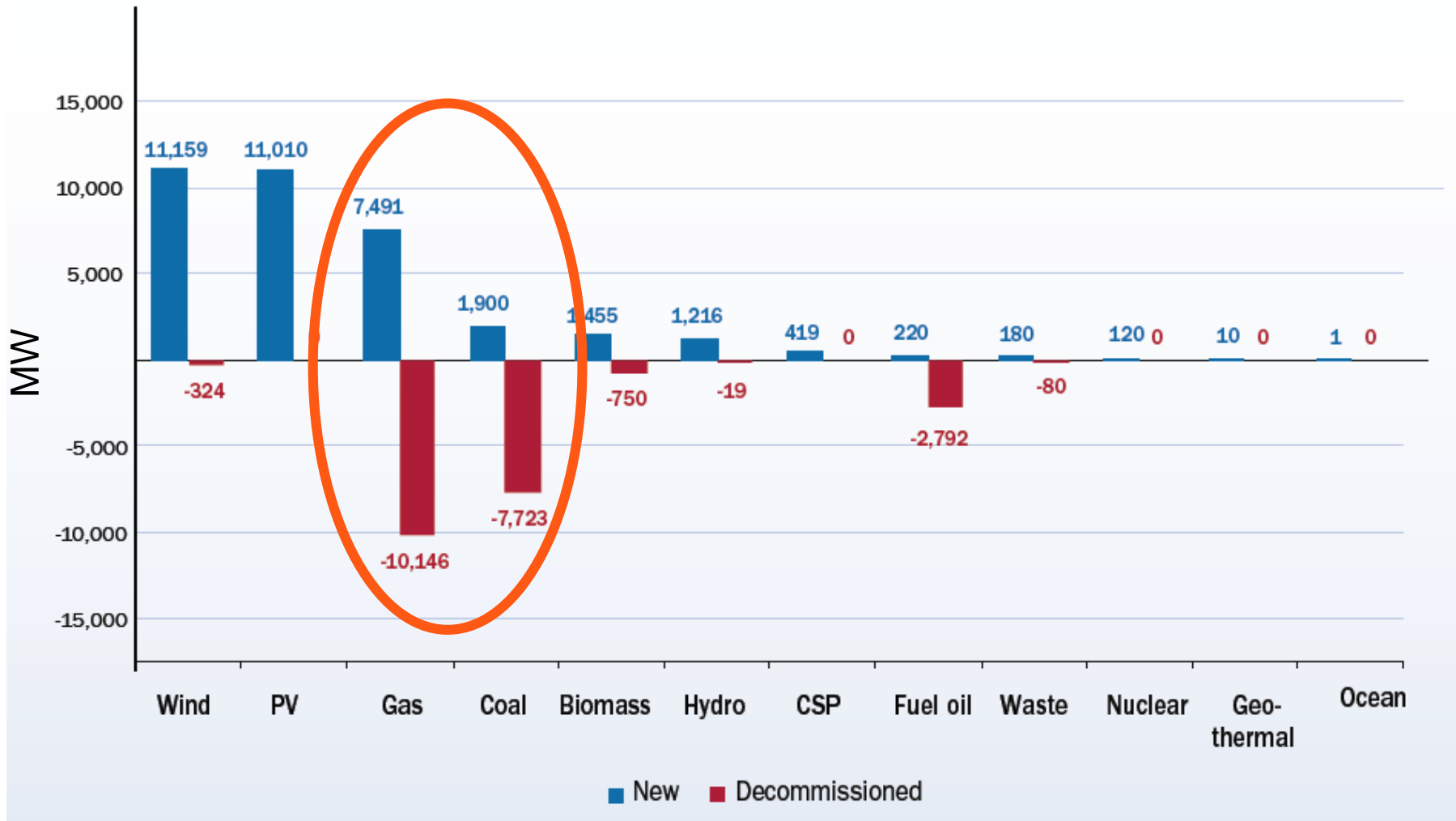
Source: IEA, 2014

Plenty of investment has taken place in Europe since 2000



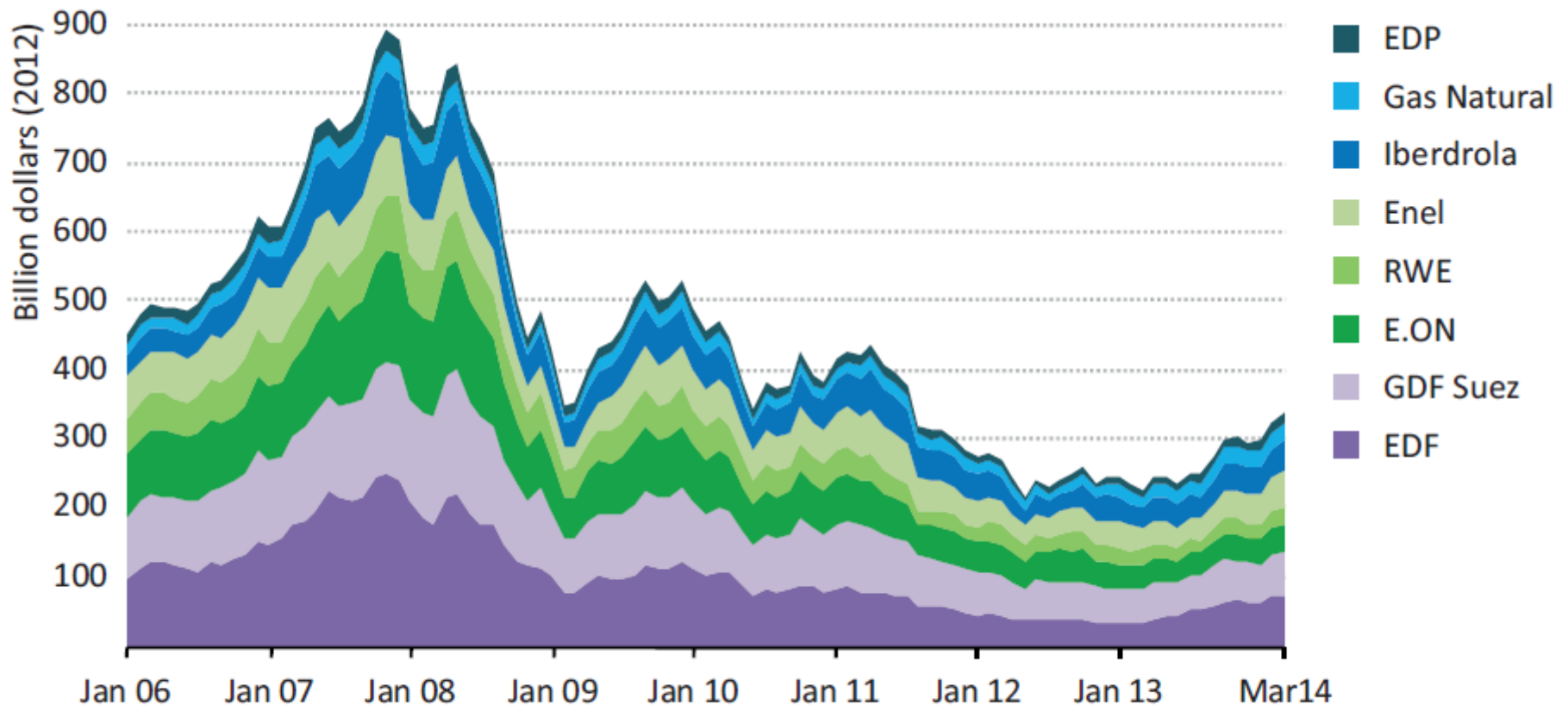
Investment in Europe by type, MW. Source: EWEA, 2014

But investment in dispatchable plant is today net negative



New investment and decommissioning in 2013, MW. Source: EWEA, 2014

... and utilities have suffered a lot



Note: GDF and Suez were distinct companies until June 2008.

Sources: IEA analysis and 2° Investing Initiative, based on Bloomberg Professional service.

We already have one European market...

- ▶ Short term: Intraday, day ahead and market coupling
- ▶ Medium term: a few years forward
- ▶ Transmission across interconnectors

- ▶ The wholesale market works well
 - Price signals for **efficient dispatch**
 - **Hedging** and management of earnings at risk
 - **Price harmonisation** between regions
 - **Communicating system stress** – negative prices, price spikes, price decreases because of over capacity, price volatility, etc
 - Communicating **earnings potential** to equity investors
 - **Highlighting policy stresses**

...but there are nevertheless limits to the market's usefulness for investors

- ▶ Individual member state policies focussed on significant interventions and subsidies
 - Policy/political uncertainty
 - Crowding out
 - Prices versus LCOE's
 - Increased cost of capital
 - Makes forecasting long term prices very difficult
- ▶ To tackle CO2 emissions we need to focus on... CO2!
 - Not the different *means* to decarbonise
 - Work at a global level with partners – nearly 90% of emissions do not come from Europe!
- ▶ Also need to revisit market design. All needed investment will probably not take place based on an energy only market alone
 - 'Missing money' problem
 - Lack of long term contracting
- ▶ Energy Policy and Market Design need to **pull in the same direction**

Contract for Differences - CFDs

▶ Longer investment horizon means

- More pronounced policy risks for investors
- Larger impact on investment decisions

▶ The CFD provides

- Long term revenue certainty for investors
- Protection from high and volatile commodity prices for consumers

▶ CFD's achieve more than FIT's if well designed

- Power sold as normal in the market – and liquidity can be improved
- Volumes are controlled – no crowding out of other technologies
- Compatible with EU member state responsibilities to
 - Choose its energy mix
 - Ensuring security of supply (energy and capacity)
- Can become technology neutral in the future