Trends and evolution of the Costs of Capital in RE Financing

Agustin Roth – ar@eclareon.com

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Agenda

1. **Weighted Average Cost of Capital**

2. **Main results: 2019 & over time development**

3. **Conclusions**

Main highlights

Strong decrease of the Costs of Capital (WACC), Cost of Debt, and Cost of Equity

Main drivers of change:

- **country risks & new business cases**
- **monetary policy (interest rates)**
- **Spill-over effects**

Lower Costs of Capital are a positive sign for a further RE development and to reach energy and climate goals

Introduction

Existing data from DiaCore and Re-Frame

Data for 2014 & 2016

Collection of new data

AURES II

Dec 2019 – Apr 2020
100 interviews

Validation with experts + Analysis

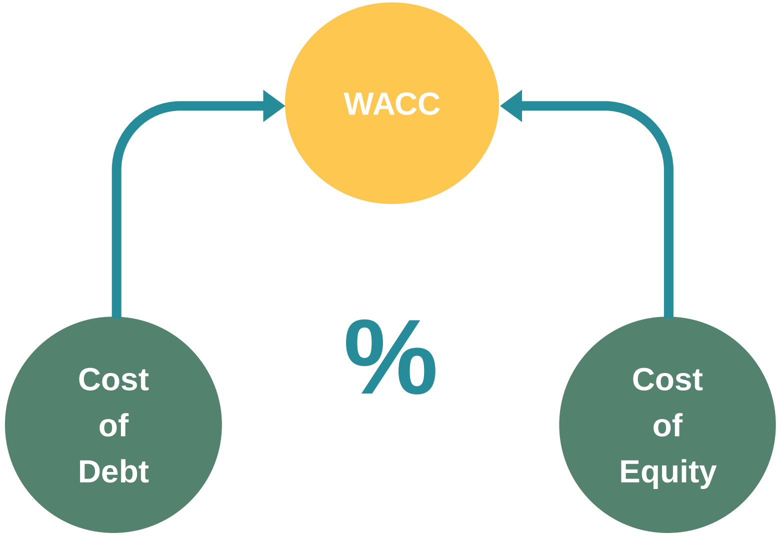
Feedback from national experts

Some caveats:

- Constant **changes** of RES market conditions
- Different level of **transparency** of market actors
- **Lack of current, significant projects** in some EU markets, made sometimes model estimations necessary

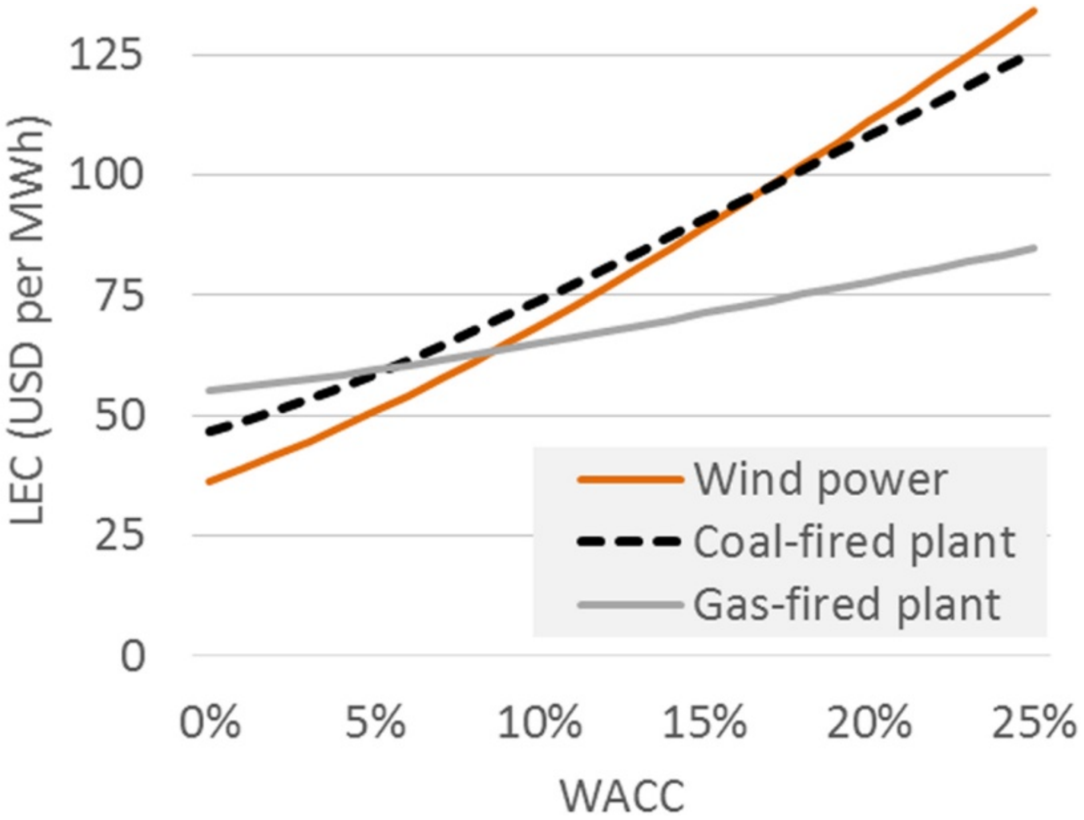
Introduction

What is “Weighted Average Cost of Capital”?



Introduction

Why should we care about it?



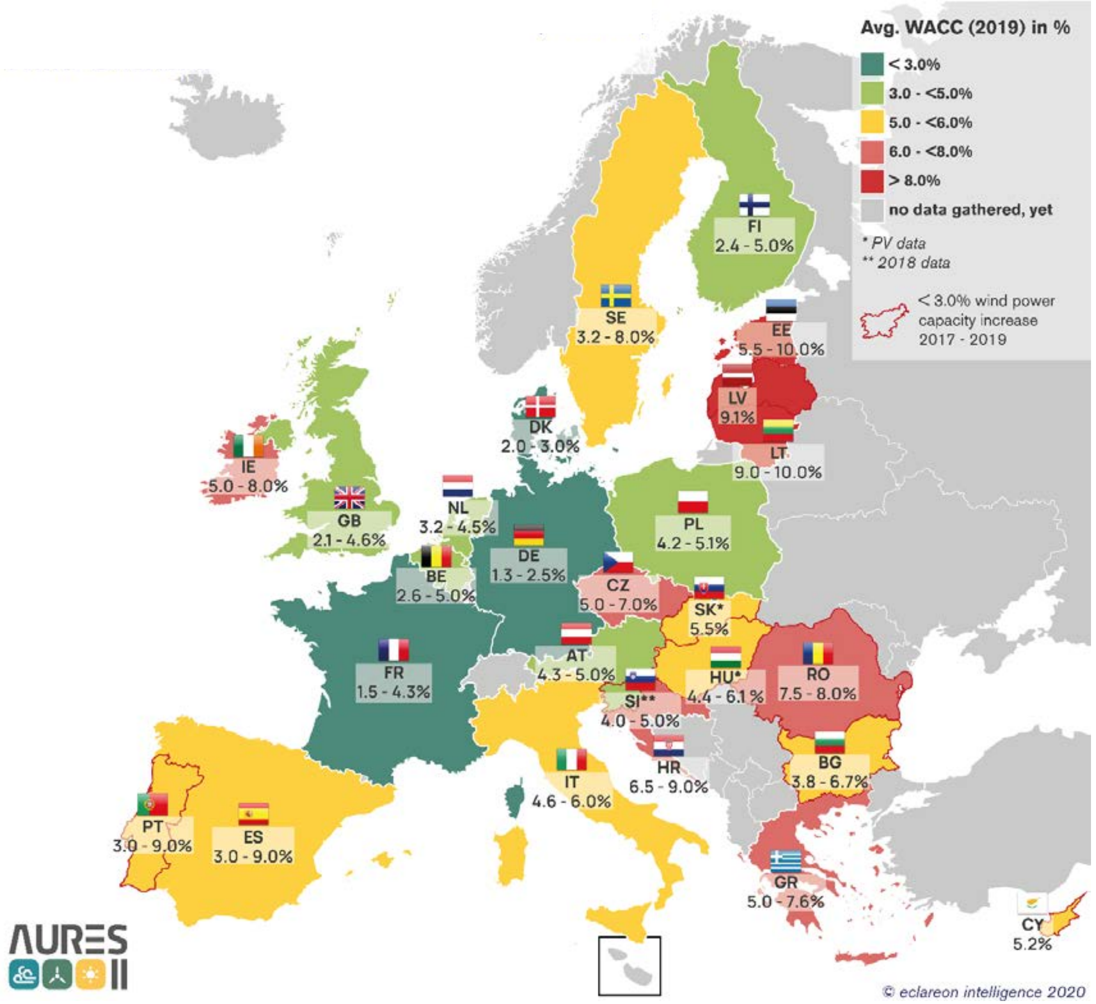
Source: Hirth & Steckel (2016)

Costs of producing electricity are affected by WACC

Wind power is the cheapest and most cost-effective power source for a low WACC

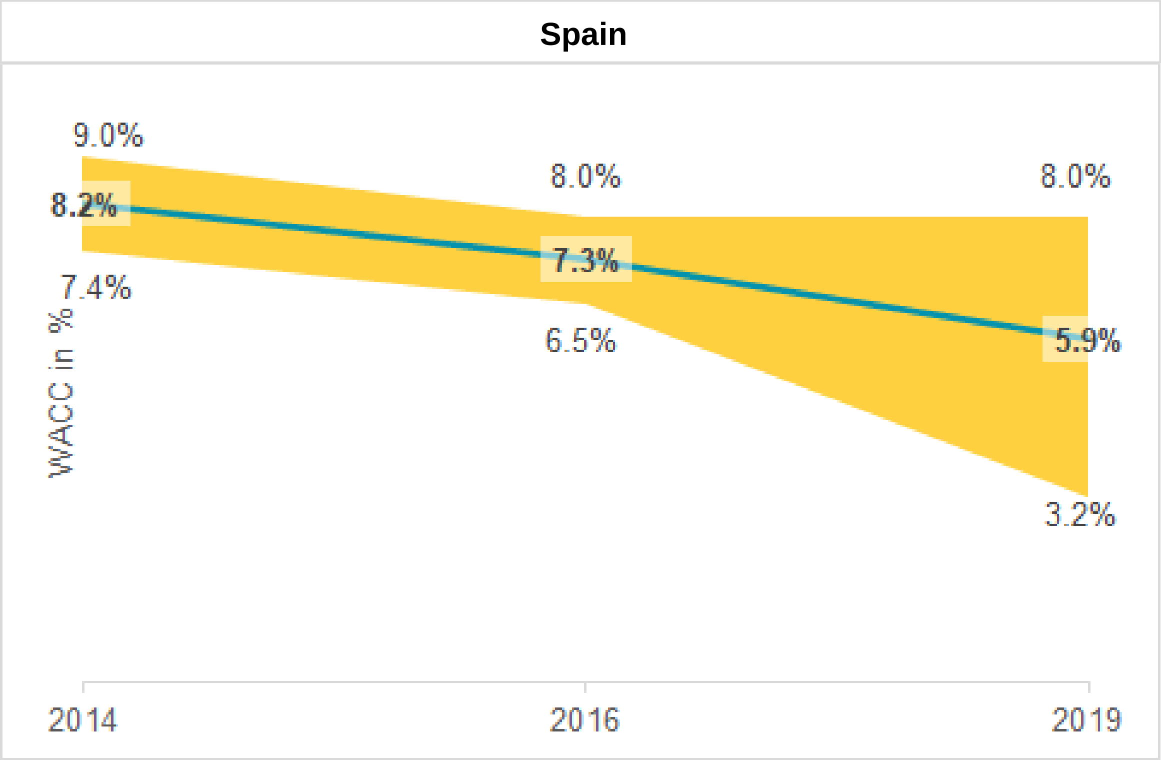
WACC 2019 – Wind Onshore

Results show there is still a gap between Member States



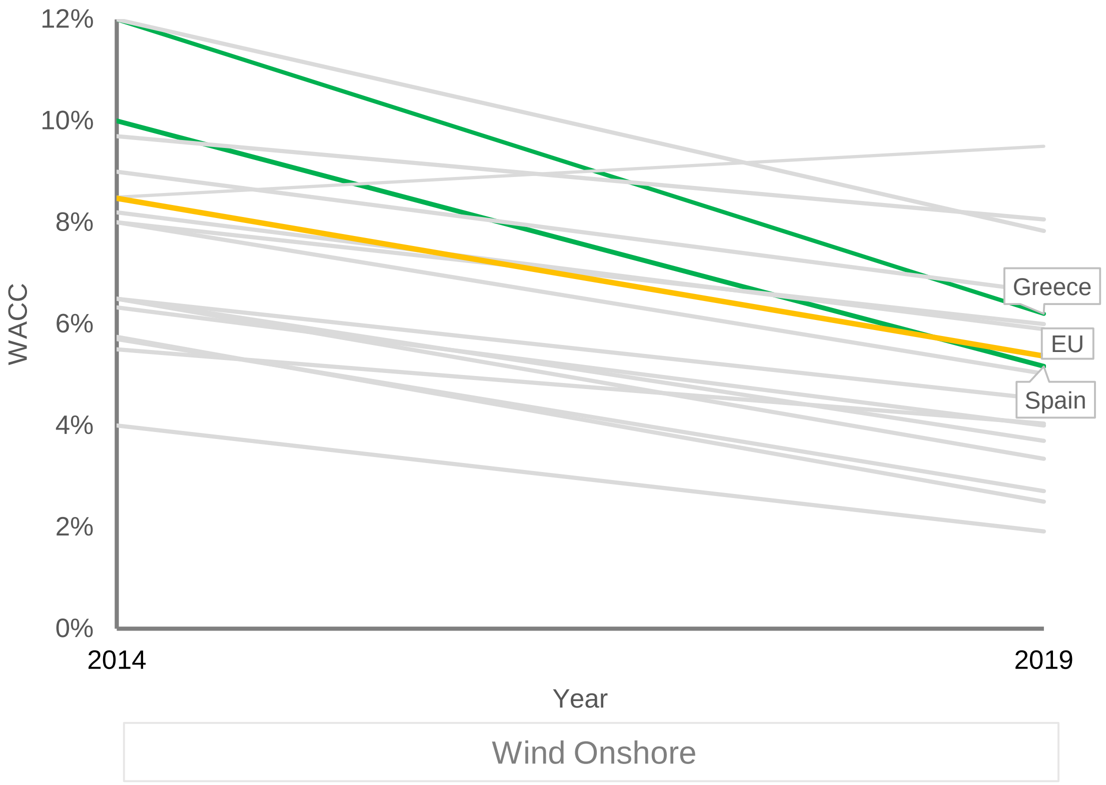
Closer look: WACC Spread

Different business models and market players could be drivers behind the spread



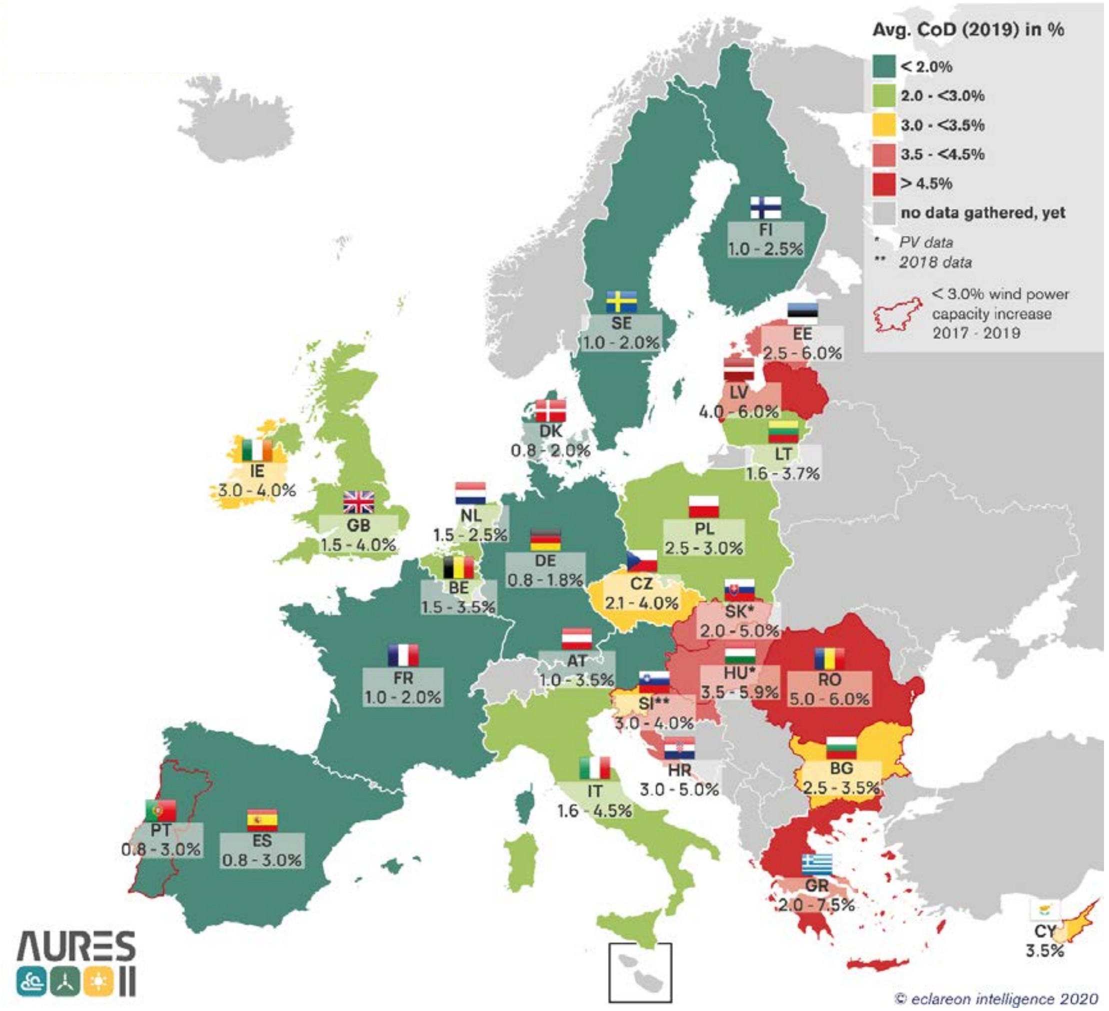
WACC Development 2014-2019

Dramatic WACC decrease in most countries and the gap is narrowing



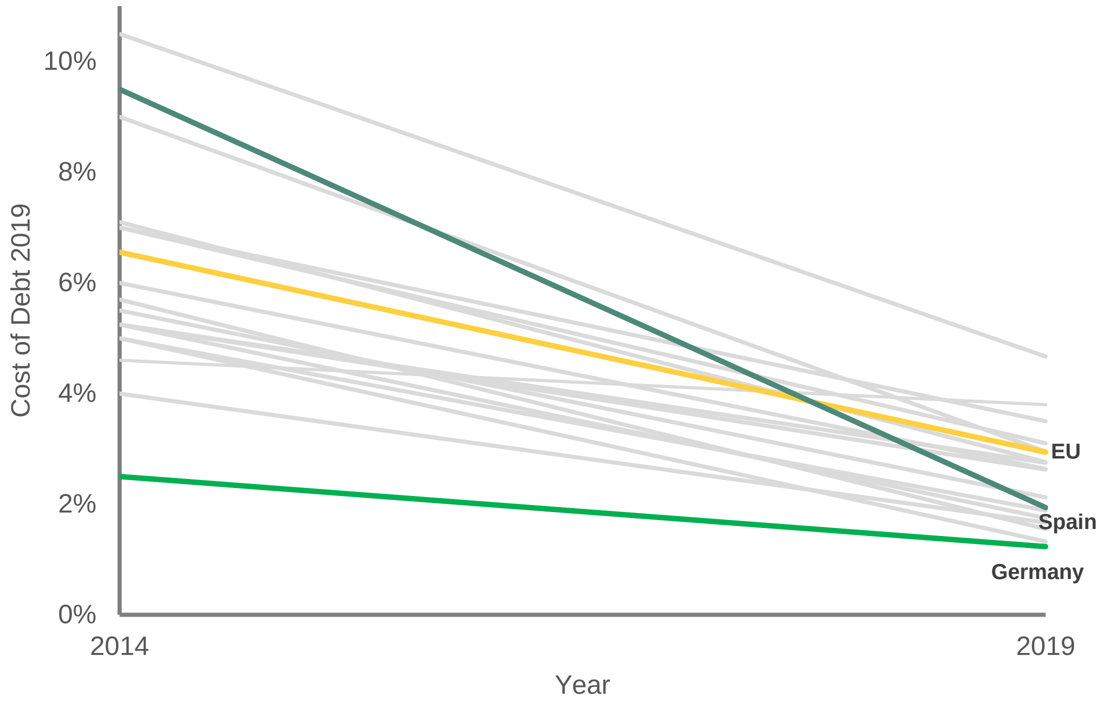
Cost of Debt 2019

Many countries with an average CoD lower than 2%



CoD Development 2014-2019

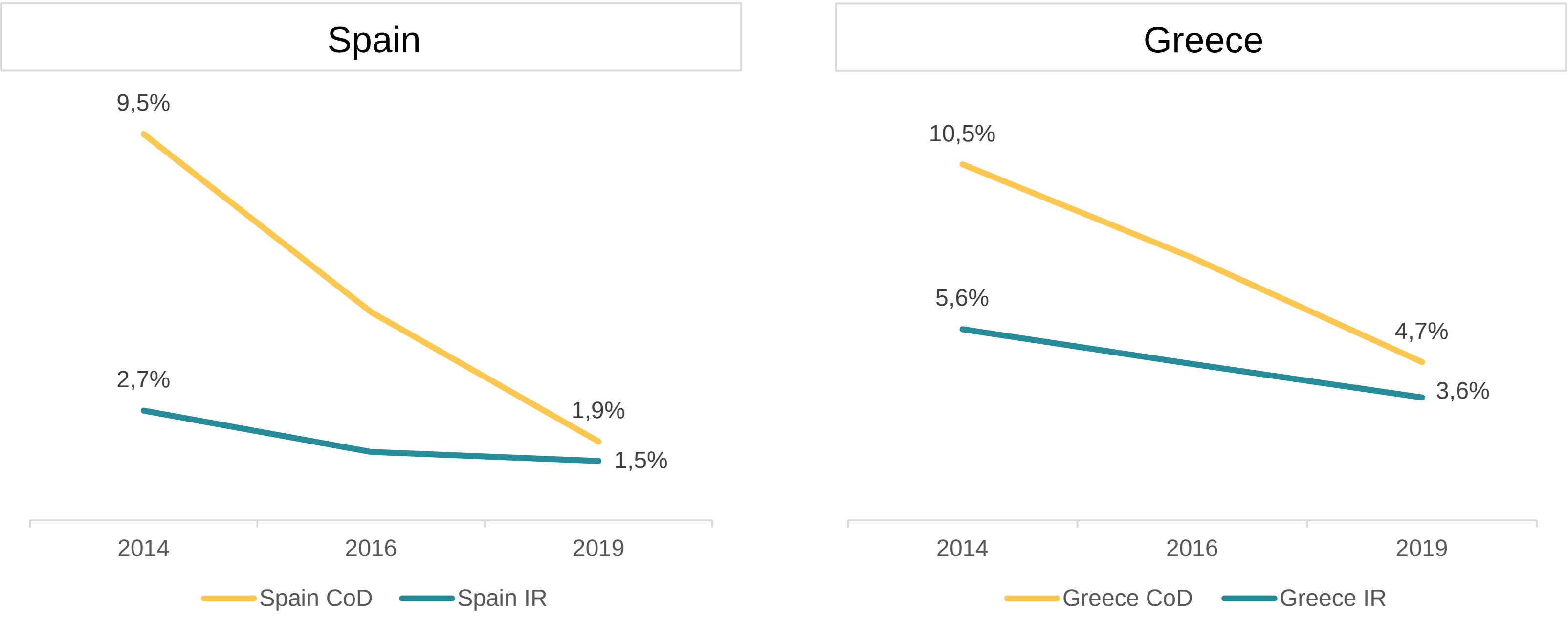
Strong decrease of the Cost of Debt in all the EU



Wind Onshore

CoD Development 2014-2019

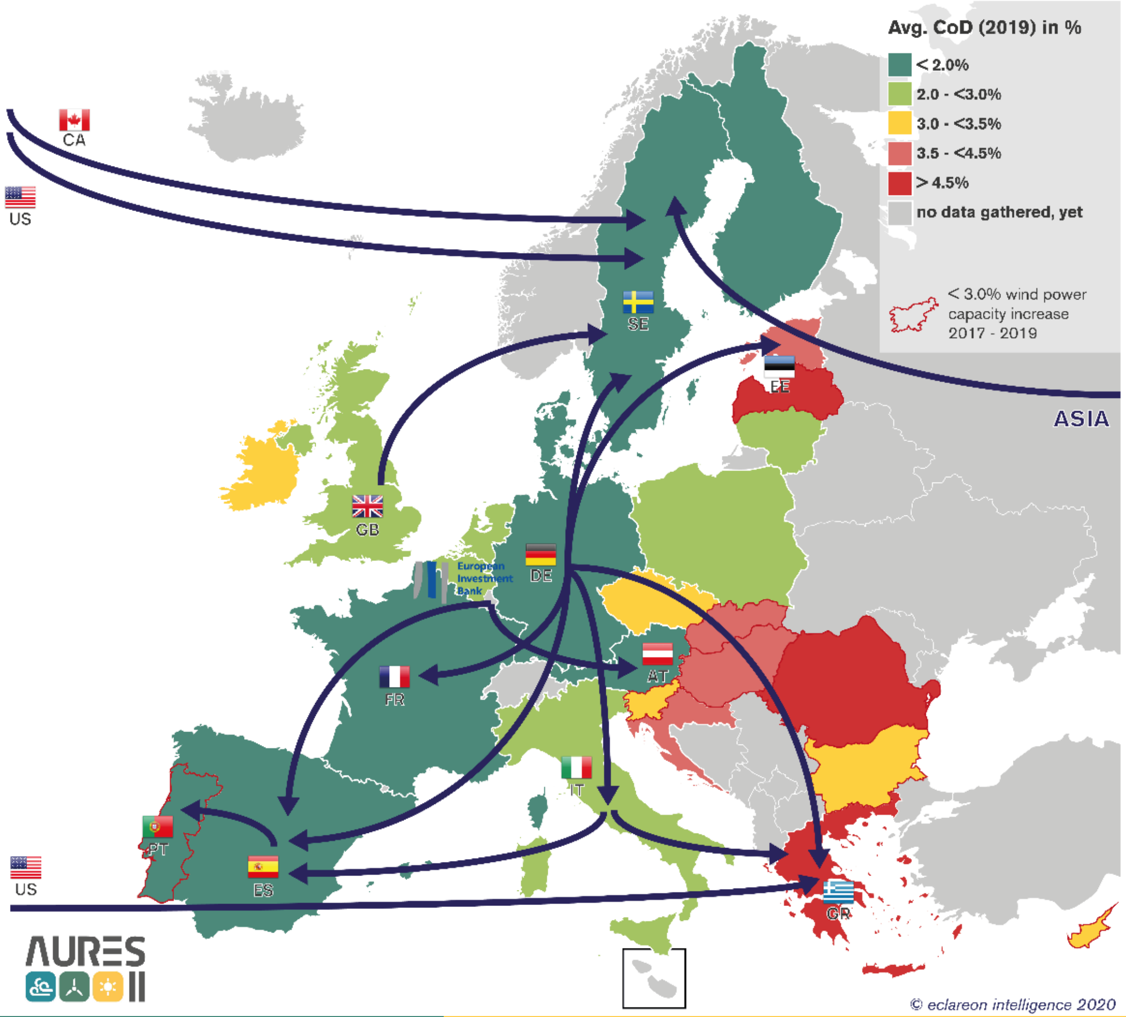
Correlation between CoD and Interest Rates in the Eurozone €



Wind Onshore

CoD Development 2014-2019

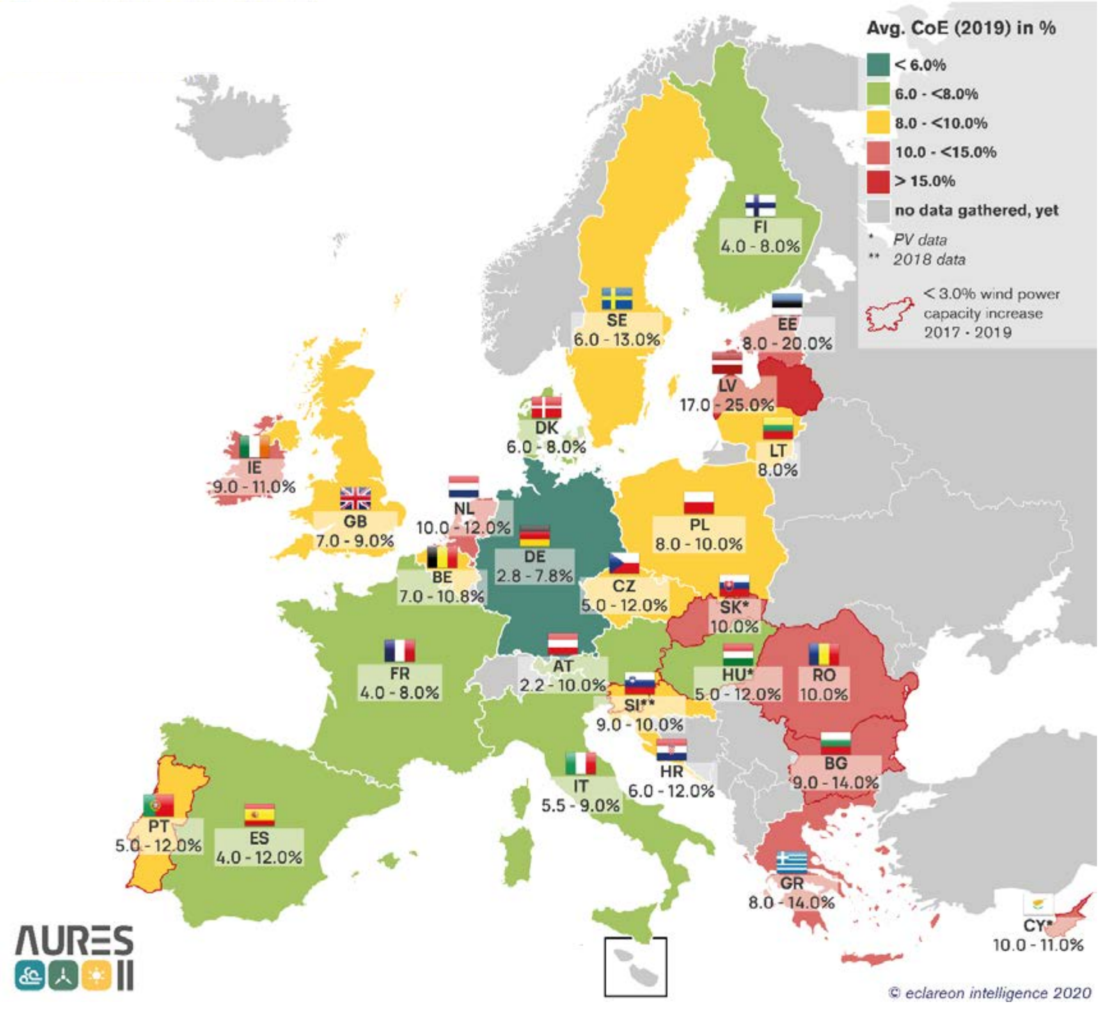
International flow of capital



Cost of Equity 2019

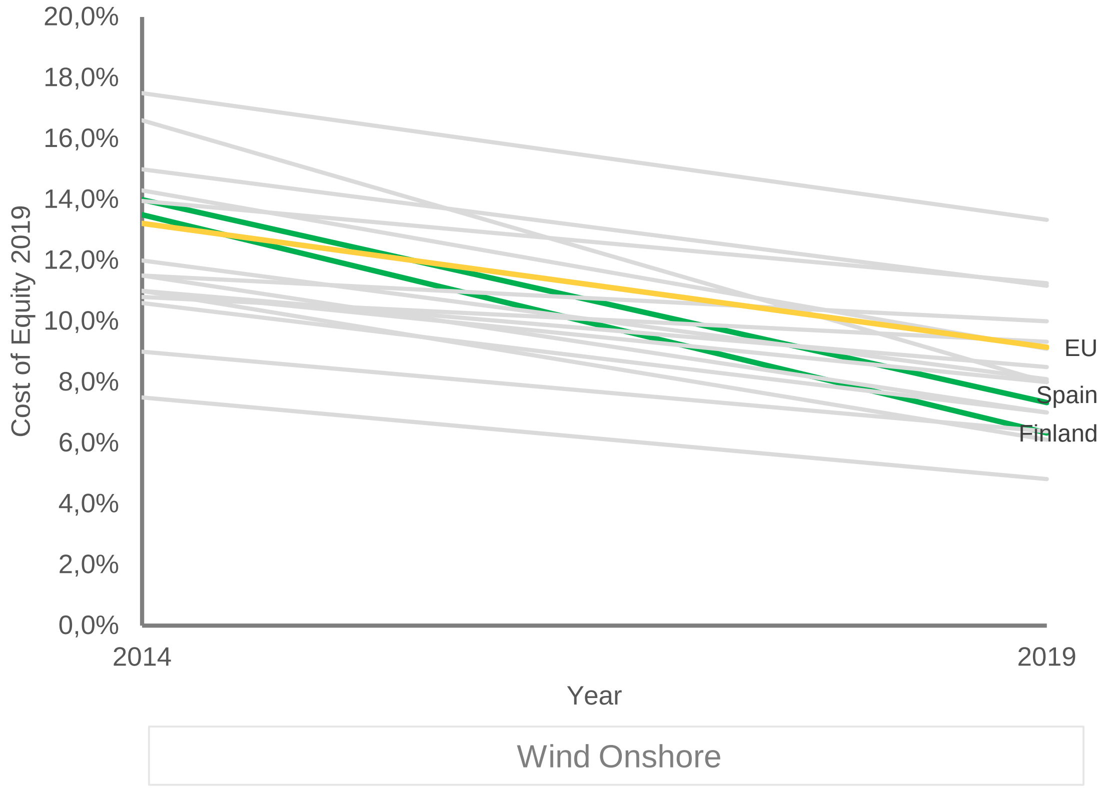
65% of countries with a CoE lower than 10%

Riskier countries = higher CoE



CoE Development 2014-2019

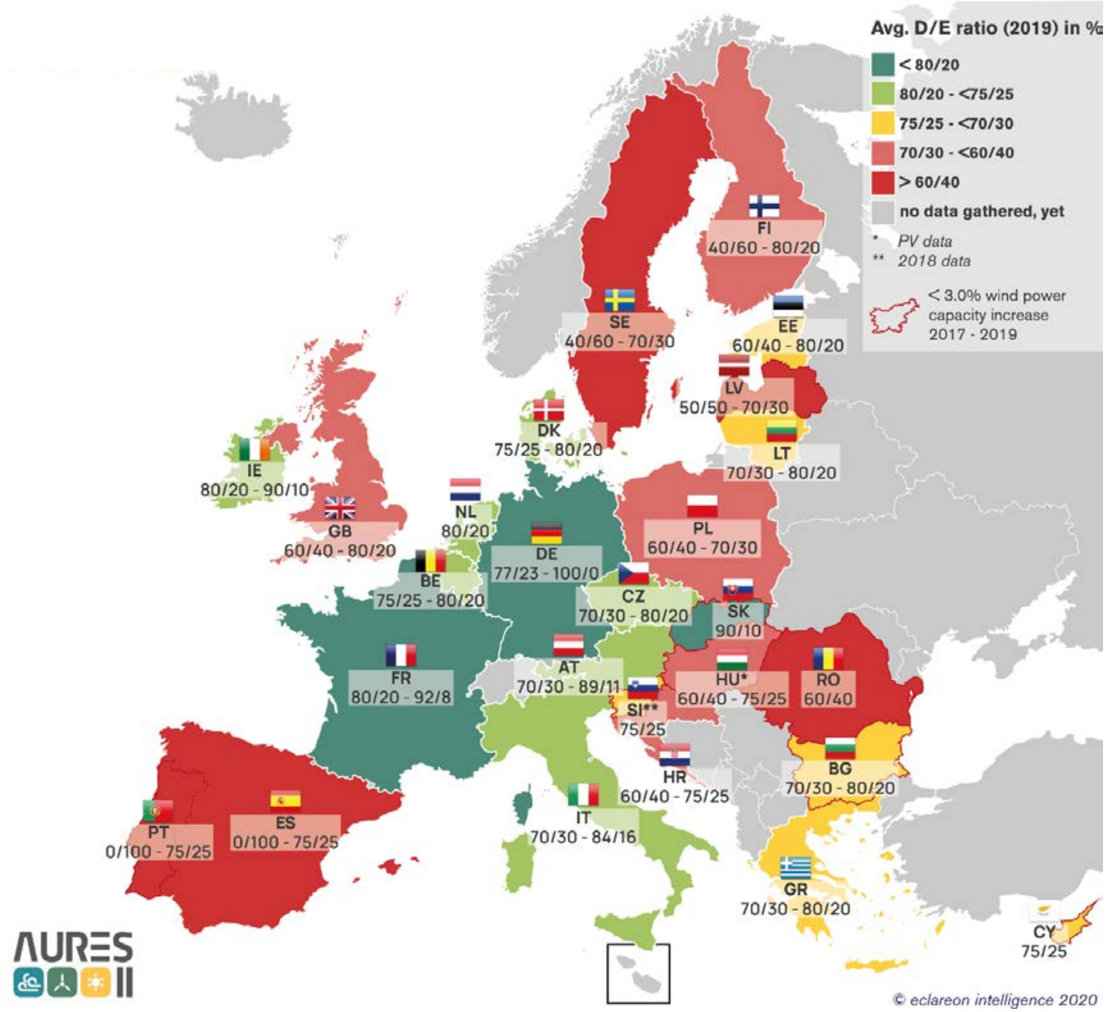
New market players interested in *greening* their portfolios



Debt to Equity ratio 2019

Wide gap between countries

Riskier countries = reduced debt leverage capacity



Conclusions

Dramatic decrease of the WACC, CoD, and CoE

CoD: huge role of interest rates and international capital spill-overs

CoE: emergence of new investors with different interests and business models

Lower Costs of Capital are a positive sign for a further RE development and to reach energy and climate goals

Thank you!

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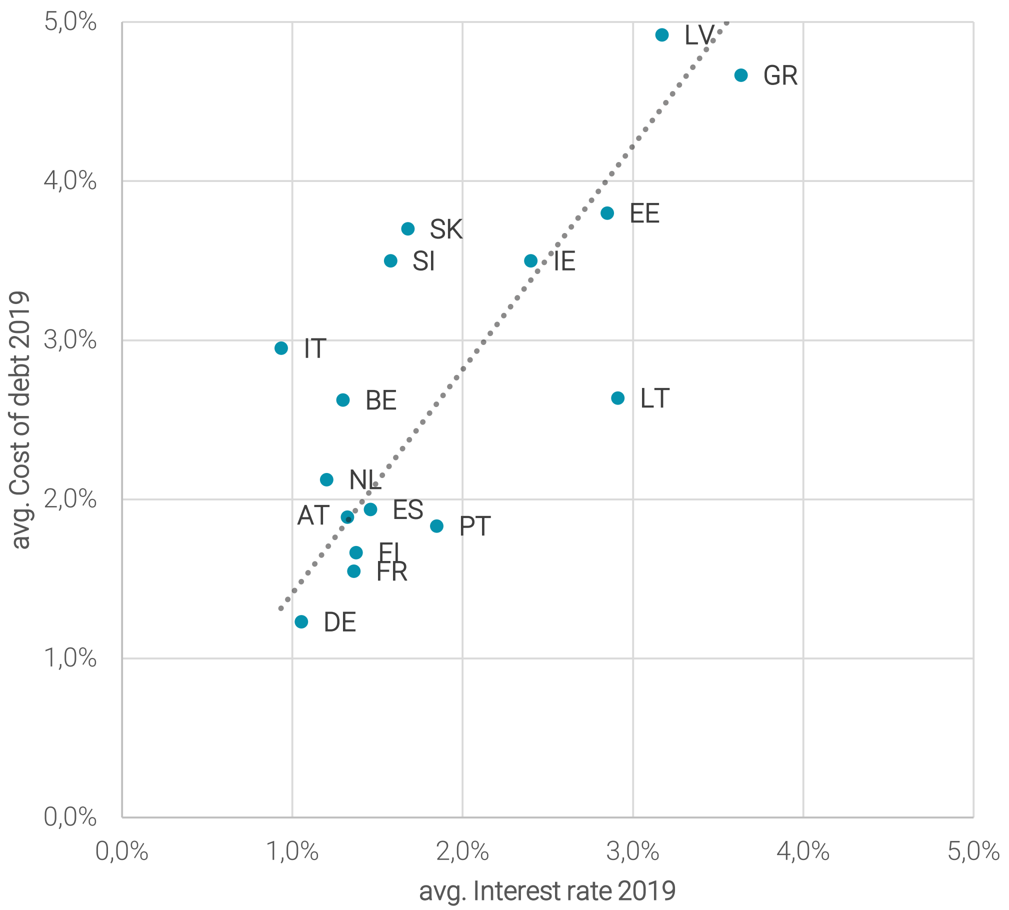
Correlation between Interest Rates and Cost of Debt



Methodology

Existing data

- Estimations of **costs of capital of wind onshore-investments** from DIA Core Project
- Comprehensive interview series with financial experts
- Evaluation of development of parameters

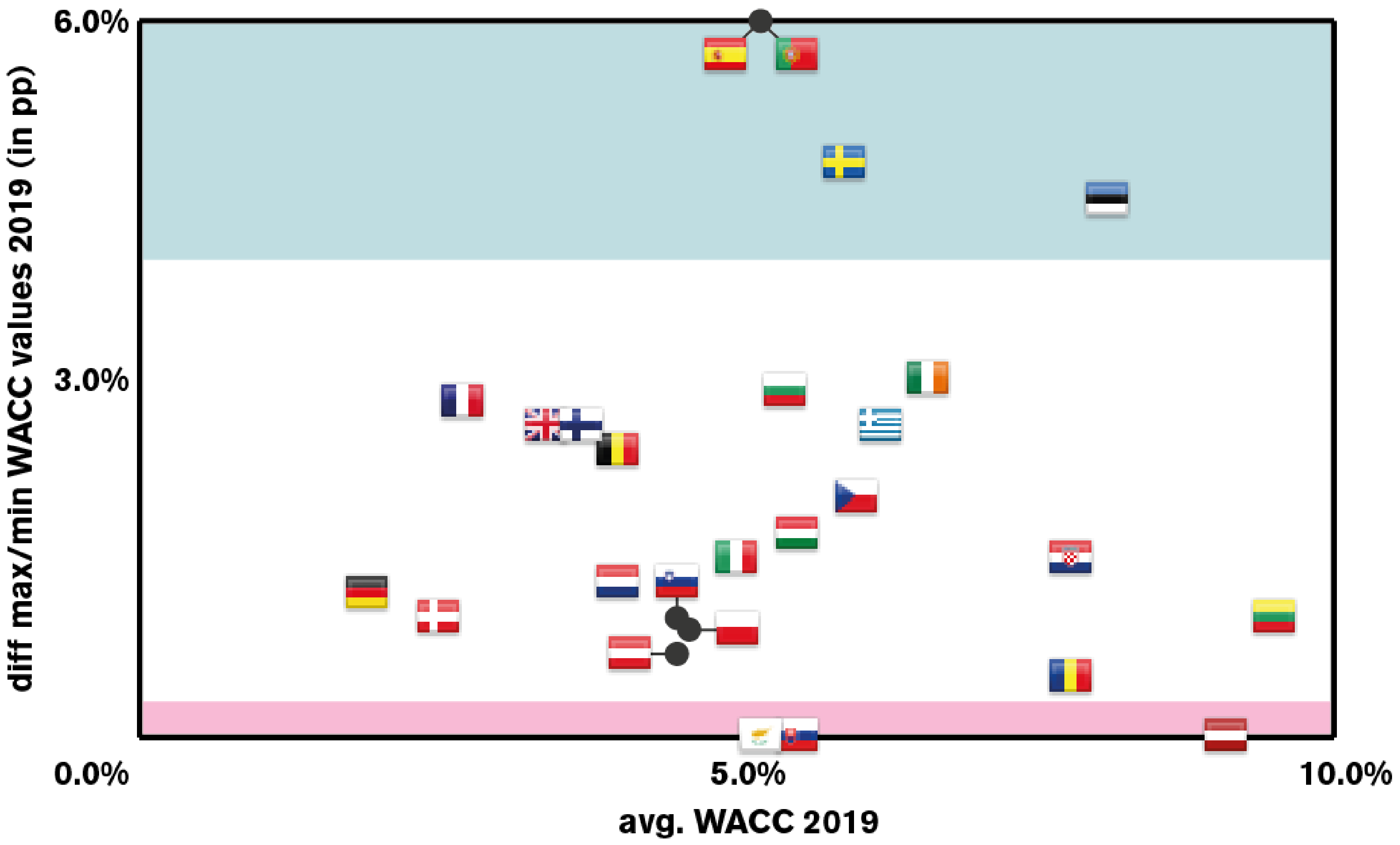
Analysis

- Comparison with **interest rates for loans from other sectors in EURO zone**
- Description of trends

Results

- Aggregation and visualization of meta data
- Presentation of results and **feedback from national experts**
- Preparation of deliverables: project presentation & database

WACC Spread 2019



Agustin Roth
Eclareon GmbH
ar@eclareon.com

AURES II

Website:	http://aures2project.eu/
LinkedIn:	AURES II
Twitter:	@auctions4res
Newsletter:	http://eepurl.com/gd42zz

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