Financing of renewables

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Asset financing of renewable projects can either be by balance sheet financing, where developers use their resources to fund up a project, often after raising bond financing for the corporate entity or by non-recourse project financing, where funding is secured directly for the project on the strength of anticipated income. Balance sheet financing dominated according to Bloomberg also in 2010 (from 76% in 2009 to 68% in 2010), but continued to decline.

Bank loans are the most common project financing for renewables. Since large upfront investments are required it is likely that the bank will run an independent verification of the basis for the investments (wind analysis, operation time, project management tools, marked forecast etc.) in addition to small margins, a sensitivity analysis for the most critical factor influencing the rent of the investment (electricity and certificate prices, cost of equipment etc.).

The cash flow in the project is important as many projects are organized as single purpose companies and/or is a newly established company. Due to this, the experience and the competence of the project team, management and the Board are of importance in addition to the technology and suppliers to the project. Other important factors are the operation set up as the income is dependent on deliveries to the grid in line with the efficiency factor used in the calculations of the cash flow, the insurance and guaranties for the plant. This is especial important for wind mill installations. Most of the equipment used in for instance wind farm is imported and consequently exchange rate might also represent a challenge.

According to a survey done by the Swedish Energy Agency the banks consider the certificates as an important instrument to ensure the financing of the projects. The most important factor that can influence the long term prognosis for prices of electricity and certificates are considered to be updated on the projects in operation, under planning and construction in addition to the general framework for investments in renewables. A common mean for financing is to sell the electricity production and certificates in the future marked. This will not give the windfall profit but will ensure an income that can serve the bank loans provided the production is running.