

THE US GREEN INFRA WAY FORWARD

US TRANSACTIONS WILL BE COMPLETED IN A WIDER VARIETY OF SECTORS AND TECHNOLOGIES IN THE COMING YEARS. THE ONSHORE RENEWABLES, OFFSHORE WIND, TRANSMISSION AND EV CHARGING MARKETS WILL BENEFIT. BY **WILL MARDER**, HEAD OF **WILMINGTON TRUST PROJECT FINANCE**.

Entering 2021 after a challenging year, the outlook for renewable energy was already quite strong and it looked to maintain its position as one of the most active sectors and brightest spots in the project finance arena. In fact, wind energy racked up its biggest year ever for new installed capacity in 2020. Now, with the Biden administration's recently announced American Jobs Plan to revitalise many key areas of energy, infrastructure, telecommunications, and transit, it's clear that even a watered-down version of the plan will be yet another boon for the renewable energy economy.

We are also seeing several other factors contribute to a favourable outlook for renewables. There are many equity sponsors and debt providers who are active in the sector and show continued interest. The availability of capital is strong, with attractive long-term debt financing coming from commercial bank lenders, institutional investors, and infrastructure debt funds. In addition, there have been some new entrants to the lending community and a high level of leasing activity, particularly with sale and leaseback structures in the mid-sized commercial and industrial solar sector.

Renewables will be part and parcel of a broader transition to a low-carbon future, which will touch our lives in many ways. Let's take a look at why now is the best time to be active in renewable energy, and some of the areas where we can expect to see growth over the next couple of years.

Onshore renewables

Terrestrial renewable energy technologies – including wind, solar, hydro, geothermal, and landfill gas, to name some of the most active sectors – will get a significant boost with a major extension of the Production Tax Credit (PTC) and the Investment Tax Credit (ITC). Additionally, and perhaps of equal importance, is the new concept of “direct pay” for the credits.

The multi-year extension of the PTC and ITC provides much-needed stability to the sector, enabling developers and investors to plan for the future. The renewable energy industry has been stuck for far too long in a boom-and-bust cycle driven by the on-again, off-again availability of tax credits. Now developers will have more visibility around what credits will apply to their projects when they reach commercial operation.

The Biden plan also includes a critical change around both the PTC and ITC, including a 10-year extension of both credits, and an option for the direct payment of those credits. The direct payment allows owners of projects that qualify for the ITC or generate PTCs to take advantage of those credits without having to monetise them or needing to enter into a complex partnership arrangement.

Offshore wind

Offshore wind is poised to be one of the renewable energy market segments that will benefit the most from the Biden plan. As hard as it is to believe, the US has only two operating offshore wind farms – the 30MW Block Island Wind project (the financing of which closed six years ago) and the 2-turbine 12MW Coastal Virginia pilot project. The Biden plan specifically focuses on offshore wind, with the target of bringing 30GW of nameplate generating capacity online by 2030 – over 700 times more than what is currently installed. The Biden administration estimates that reaching this goal will require the deployment of US\$12bn of debt capital annually.

The Biden plan also includes having the Bureau of Ocean Energy Management (BOEM) open a new lease area in the New York Bight, providing additional high-quality areas for developers to site new projects. The BOEM is also stepping up its efforts to review and approve projects that have already been submitted. Related to this is the reintroduction by the House of Representatives of the GREEN Act, which would extend tax credits for offshore wind, and a pledge by the Department of Energy to provide US\$3bn of debt for offshore wind under the Innovative Energy Loan Guarantee Program.

Providing additional near-term support to offshore wind is part of the ruling by the Internal Revenue Service, which said in late December 2020 that federal tax credits can be claimed on offshore wind projects and renewable energy projects on federal land that are completed within 10 years after the year construction starts. This provides much more runway for complex offshore projects than the standard four years and additional comfort for lenders and tax equity investors looking to put capital to work on those deals.

The tax credit extensions, direct-pay option, and the improved regulations for offshore wind can all

be expected to contribute to a significant uptick in the development and financing of those projects. The sector is ripe for development in the US, with many project finance lenders already having exposure to this sector in the European market.

Battery storage

For the first time, battery storage gets its own tax credits as a stand-alone technology, ie it doesn't need to be tied to a form of power generating technology. This could be a game-changer for storage, as developers were relatively less incentivised to roll out standalone storage systems as opposed to those that were tied to a wind or solar project, for example.

Storage is a key development in the move towards a low-carbon economy, which includes electric vehicles and charging stations. Imagine fleets of electric vehicles all charging overnight, when before there was relatively little electricity usage while people slept. What's even more impactful is that as intermittent resources, such as wind and solar, become more prevalent than dispatchable resources, like natural gas, you need a way to store that power in order to have an efficient, reliable grid. Storage allows for the immediate deployment of electrons that were created from renewable sources when we might have otherwise converted a fossil fuel into electricity.

Transmission

The Biden plan seeks to establish a new Grid Development Authority at the Department of Energy (DOE) that will be charged with better leveraging existing rights of way for the siting of new high-voltage transmission lines and seeking improved ways to finance that asset class. This is largely in response to weather-driven events that have resulted in debilitating power outages across the US – notably the events of this past winter in Texas. The plan seeks to spur the development of

up to 20GW of high-capacity transmission lines to move power more efficiently and effectively to where it's needed. The US currently has an ageing and complex transmission system, which results in some areas being relatively isolated from others, especially the Electric Reliability Council of Texas (ERCOT) market.

Related to this is a drive by the DOE to receive applications for as much as US\$5bn in loan guarantees supporting innovative transmission projects, as well as transmission projects owned by tribal nations or Alaska Native Corporations. These plans include high-voltage direct current (HVDC) systems, transmission to connect offshore wind, and facilities sited along rail and highway routes.

EV and battery charging

The Biden plan includes US\$174bn to be invested in the US electric vehicle (EV) market. The investment is designed to help automakers create new domestic supply chains for everything from raw materials to parts, as well as the retooling of factories. This also allows for new rebates to consumers and tax incentives to buy American-made EVs. More importantly for the project finance sector, the plan will establish programmes for municipalities and the private sector to build a national network of 500,000 EV charging stations by 2030.

Renewable energy is poised to grow, exceeding its strong pace of the last couple of years. The Biden administration sees renewables as just one component of a broader energy transition – one in which we see a larger, more meaningful reduction in the reliance upon fossil fuels, and the penetration of clean/green technology in many areas of our lives. This is an exciting time to be involved in the project finance sector, and we can expect these changes to play out in the form of more transactions being completed in a wider variety of sectors and technologies. ■



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