

## How 'dry powder' can fuel the global energy transition

According to the EU's Copernicus Climate Change Service (C3S), March, 2024 was the 10<sup>th</sup> month in a row to be the hottest on record for the time of year. Following on the heels of this revelation, the European Court of Human Rights (ECHR) judges found that the Swiss government had violated some human rights by missing past emissions reduction targets.

So, to summarise the current situation, it can be said that there are multiple global climate change agreements, and many renewable energy technologies available that can 'action' those agreements. But, after almost two decades of climate change 'activism', nothing has changed. Temperatures are still rising.

The reality is that the energy transition is comprised of thousands of individual projects across wind, solar, waste-to-energy (WTE), nuclear, and other proven technologies, worldwide. The majority of these projects are ready to go, right now (none of them can be declared 'shovel ready' until the investors say they are). But they are held back from unleashing terawatts of clean, green energy, and making an immediate impact on the climate challenge, because they do not appreciate the abundance of capital available. Nor how to access it or how to structure their financings.

In fact, there is a vast multi-trillion dollar reserve of capital ready, willing and waiting to be released into renewable energy projects worldwide. Known in the market as 'dry powder', this capital is managed and allocated by tens of thousands of hedge, alternative investment, private equity/debt and other funds along with asset managers and family offices. Indeed, there is now an entire lexicon of private capital allocators, collectively known as the 'private markets' offering deeper liquidity and more flexibility than mainstream lenders. This tectonic shift in the global capital markets has gathered momentum over the past three decades.

However, with their groupthink firmly rooted in archaic 20<sup>th</sup> Century financing structures, policymakers are failing to acknowledge, let alone harness, this vast capital reserve to fund renewable energy projects. Nor are they aware of the equally important investment structure needed to make it happen. In particular, the seemingly mundane 'project finance' structure, still regarded by policymakers as being unchanged since its 1950's iteration. Back then, it was developed to finance large scale, multi-billion dollar (at today's values) projects restoring infrastructure and heavy industry after WWII.

### Flexible

Now, and after seven decades of evolution, project finance has become a flexible and powerful investment structure for deal values from US\$100 million – US\$10 billion or more across social and economic infrastructure, hospitality and many other sectors. Critically, and uniquely out of all investment structures, the track record and financial stability of whoever is contracted to buy the output from the built project *overrides* the balance sheet and assets of the borrower.

*“...borrowers are left free and clear of all financial liabilities whatsoever...”*

With renewable energy projects, investors therefore lend and underwrite against the power purchase agreement (PPA) with the regional or national grid contracted to buy the plant's output. This makes renewable energy projects the favoured investment vehicle for investors, worldwide.

### Arms-length

Ultimately, project finance investment is lending against revenues from a yet-to-be-built asset, from which mainstream banks are precluded by their own regulations. Only the private markets have the flexibility to lend on this basis.

Because of its focus on the credibility of the energy off-taker, through the PPA, the project finance structure inherently delivers the risk-mitigation and long-term returns that investors constantly demand. But, most critically, project finance deals are all transacted through special purpose vehicles. This is an entirely separate, 'arms-length' entity set up purely to facilitate the transaction. Consequently, *borrowers are left free and clear of all financial liabilities whatsoever* be they a team, company, municipal or national government.

Across the world, the narrative has been to focus on wind, solar and nuclear for our renewables mix with the most environmentally-friendly option of all, WTE, being completely overlooked. This is a well-proven, mature technology that consumes unrecyclable waste from across the area it serves, returns it as electricity, progressively eliminates landfills (and the climate damaging methane they emit) and operate 24/7/365 independent of weather conditions. Mw for Mw they also take up far less land footprint than either wind or solar. Many also produce biofuels as a by-product.

Any municipality, anywhere in the world, can build its own WTE plant whether it costs US\$100 million or US\$5 billion or more, leaving themselves and their tax-payers free and clear of any financial liability whatsoever. What's not to like?

The technologies are proven and available. But no policymaker has looked seriously at how to bring those technologies on-stream and the financing structures necessary to do it. Perhaps it is now time to ignite that 'dry powder' so that the talking can stop, and the energy transition can start.

**Written by [David Rose, Chairman of the Project Finance Exchange \(PFX\)](#).**

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If you wish to discuss the financing of renewable energy projects with our Chairman or CEO, please use [media@projectfinanceexchange.com](mailto:media@projectfinanceexchange.com). We will respond within three business days.

Further information on the private markets and project finance structure can be found in the PFX Media Backgrounder which can be downloaded from our [Media Zone](#).

If you wish to raise finance for your renewable energy project please visit our [Submit Project zone](#), download and complete the Intake Form and return it with your Executive Summary to the e-mail given on the form. We will respond within three working days.