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RENEWABLES ADJUSTING TO LOWER PPA PRICES, SHORTER CONTRACT TERMS

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From changing revenue models to the ongoing stepdown of federal tax credits, the US renewables sector faces a rapidly evolving competitive environment.

But even the expiration of the production tax credits (PTCs) and investment tax credits (ITCs) should not compromise the sector's growth prospects, according to a panel of industry experts speaking at an event hosted by Norton Rose Fulbright, a law firm active in the US renewables space.

Ken Elser, DNV GL's head of project finance and M&A, noted that the wind sector has stayed competitive despite reductions to the PTC, which went from 100% for projects starting construction in 2016 to 40% for projects starting this year.

"That has led me, personally, to believe that we are facing much more of a reversion to the mean rather than a cliff after 2020 [when the PTC expires] in the wind market," Elser said.

The ITC will begin to ramp down next year, dropping from 30% to 26%, then to 22% in 2021 and 10% permanently thereafter.

Federal policy changes are not the only obstacles facing the industry. Projects can no longer expect long-term utility power-purchase agreements, according to Alfa Energy Advisors managing director Vadim Ovchinnikov.

"It is hard to get a utility PPA, so they are being replaced by corporate PPAs," Ovchinnikov said. "And some hedging products are becoming more and more common."

Corporate PPAs surged from just 19 deals for 1.73GW in 2016 to 75 deals for 6.53GW, according to data from the Rocky Mountain Institute's Business Renewables Center. Corporates, meanwhile, are becoming more sophisticated and looking to shift risk to the project sponsor.

"They want a perfect product, perfect production, perfect price, and you go and find the solution for them," said Ovchinnikov. "That is the name of the game, and many developers are adapting quite nicely."

PPA terms have also shortened, from 20 to 25 years in the last decade to 10 years, he added, leaving sponsors dependent on "merchant tail," or the revenue received after the PPA's expiration. At the same time, sponsors are making increasingly optimistic assumptions regarding expected life operation, said Elser.

PPA prices have dropped dramatically since 2005 when some contracts saw prices of around USD 100/MWh, according to Ovchinnikov. Now, solar prices generally range from USD 25/MWh in ERCOT, Southwest Power Pool (SPP) and the California Independent System Operator (CAISO) to the low USD 30s/MWh in the Midcontinent Independent System Operator (MISO) and PJM, he said. Wind prices vary from USD 14/MWh in SPP and ERCOT to USD 30/MWh in CAISO.

A competitive debt market has helped propel the industry with more than 70 banks lending to wind and solar projects, according to Alfa Managing Director Gintaras Sadauskas. "This is mostly driven by the presence of Asian and European banks that face a low interest environment," he added.

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