



## FINANCING THE ROAD TO NET ZERO: RENEWABLES

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### **Host:** Mhairi Main Garcia

Hello and welcome to Watson Farley & Williams' 'Countdown to COP: Financing and Fuelling the Future' podcast series.

I'm Mhairi Main Garcia, your host.

In this chapter we'll be discussing renewables and the drive towards net zero.

I'm joined by my guest Rodrigo Berasategui. Rodrigo is a partner in the firm's finance group based in Madrid. With more than 20 years' experience he advises on transactions across the renewable energy and infrastructure space in Europe, Latin America and beyond.

Considered a market expert, Rodrigo's experience is sought after by a large number of public and private developers, sponsors, financial institutions, multilateral institutions, insurers and specialised funds on the full range of financing schemes.

Welcome, Rodrigo.

### **Guest:** Rodrigo Berasategui

Hi, thank you, Mhairi. Thank you so much for this kind introduction. I'm very happy to be here.

### **Host:** Mhairi Main Garcia

Thank you. Shall we start with looking at net zero? Where does the renewables sector stand in the drive towards achieving net zero?

### **Guest:** Rodrigo Berasategui

If we start with the main conclusions that were reached in the latest COP27 where, among these conclusions, you could find how it was essential to further develop renewable energy as well as to electrify transport and make way for new technologies.

Further to these conclusions, unfortunately we suffered the invasion of Ukraine and this war has revealed several things, such as the need to speed up the energy transition as well as to reinforce, and I think this is very important, the strategic energy autonomy – lowering the dependence on the import of fossil fuels. I think that this has been a general phenomenon affecting not only Spain but most other jurisdictions – how the price of energy has dramatically risen and how the governments have had to take some measures to cope with this problem.

Among these measures, I would like, as a European, to mention the EU strategic objectives. In May 2022, if I'm not mistaken, the Commission published the REPowerEU plan which contains several objectives and measures. All of them addressed to save energy, to accelerate the deployment of

renewable energy, to diversify supply sources and – very important – to strengthen the coordination among the European Union's countries to purchase gas and electricity.

So, we can see how this is precisely one of the drivers, one of the tools or the main instruments to be used to reach this objective of carbon neutrality and net zero. Renewable energies clearly play a decisive role in this process of transition to decarbonise the energy system, providing a solid base for energy independence since Europe and again, especially Spain, has abundant resources in this area and, equally important, a proven track record, robust players, all of which must be conducive to cheap, sustainable production of electricity which both guarantees not only supplies, but also reduces dependence on external agents. But obviously, there is a key factor to help the penetration of these renewable energies, and the main role in this transition energy process which is: if we need to reach these ambitious objectives, there needs to be viable financing conditions.

**Host: Mhairi Main Garcia**

Thank you. That's very comprehensive and it really is the case from what you've said that renewables is one of the core tools to achieve net zero. But it's also key for energy security in reducing dependency in fossil fuels. So, whilst it was the case before, as you've mentioned, there's an increased awareness of that.

In terms of challenges, what do you see as the key challenges to achieving net zero and the role of renewables in that?

**Guest: Rodrigo Berasategui**

There are many challenges and I think that we should make a difference between the most contingent ones or more linked to the current situation, and those relating to more in-depth things to be changed, and obviously this could vary depending on the jurisdictions, but I think that we can clearly identify several objectives that could be common to many jurisdictions.

On the one hand I would say that we need to increase and to enhance the interconnection agreements. We have seen how, following the war in Ukraine, some of the countries, particularly Spain, the production has reached some very high levels, but it has been impossible to export this energy precisely due to the lack of this interconnection infrastructures. On the other hand, and this is one of the main problems we are seeing here in Spain, the so-called “cannibalisation”, particularly in the solar field. Because of this system we have in all Europe, this marginalist system, consisting of the fact that the price comes from crossing the offer and demand, we have seen that in the peak hours due to the huge injection of energy coming from renewable energies the price has reached very, very low levels and that has led to see how one of the main problems is to promote storage to be able to save this energy and just to inject them in the hours where there is lower demand and lower production.

**Host: Mhairi Main Garcia**

So, it seems it's very clear that there are quite a few challenges and increasing and enhancing interconnection is crucial as well as looking at storage and we'll talk a bit more about that shortly.

Let's talk about financing at the moment. What is the current situation of renewable energy financing?

**Guest: Rodrigo Berasategui**

This is funny because currently there are some conditions that may appear somewhat adverse such as the persisting impact of COVID and the Ukraine war, persisting supply chain problems.

Also, the high prices paid in M&A transactions that need to be matched with the financing. We are seeing also some kind of problems with the EPC contractors because they have a lot of work.

One of the most adverse conditions probably is that due to this high inflation, we are seeing soaring interest rates and on top of that we are seeing also, and this is more particular of Spain, we are seeing a huge uncertainty about the impact that a massive injection of renewable energy will have on energy prices. As I mentioned before, due to this formation of prices of energy in the pool market, if we have a lot of offers in the sector that will push down prices. However, and paradoxically, in our experience, we are seeing how there is liquidity, and even more I would say that there is a great appetite in financial markets to finance these initiatives.

We are seeing new actors; we are seeing a wide range of lenders. We are seeing lenders coming from other jurisdictions, and particularly in Spain, we saw how further some regulatory changes that took place in 2014 and 2015, say for instance Dutch banks and German banks, they were quite disappointed and even worried because of the supposed lack of regulatory certainty and security and stability. And we are seeing how the investments are coming again and we are seeing a great appetite. So, I really think that the adverse factors mentioned at the beginning of my answer are more contingent.

What is the word that could define the current situation of the financing market, right now? Flexibility. After several years where we saw that the lenders were quite reluctant to see new structures and even to consider the possibility of financing pure merchant risk projects, we are seeing how the lenders are much more, not aggressive, but much more active and willing to see new structures and to accept these merchant risk projects.

**Host:** Mhairi Main Garcia

So, it's really interesting to hear about the flexibility that we're seeing from financiers and does that mean we're also seeing new products and structures?

**Guest:** Rodrigo Berasategui

One of the main problems we have seen in the past is that in those projects that were financed thanks to the system of a PPA giving certainty to the cash flows and due to the delay in the permitting process system in Spain, in the last months we have seen how these milestones that were agreed in the context of some PPAs, weren't met and that entailed the need to reopen most of these PPAs and to renegotiate these agreements. And obviously the lenders are not apart from this phenomenon. I think that they have learned a lesson and they are cooperating to avoid this risk and this is why they are able to finance at construction and to give some kind of buffer, two years plus COD, to execute these PPAs. Following this flexibility, we are seeing how the lenders are willing to finance structures or projects which so far were impossible. We have seen, and probably due also to the soaring interest rates, they are focussing on the construction and on short-term structures. We are seeing that this is a real trend not only in Spain, but also in France, in the UK, Portugal and Italy, where we are seeing some warehouse construction facilities, encompassing several jurisdictions. And we are seeing quite a boom of this product but also, we are seeing some preconstruction or development financing, obviously under certain conditions, and somehow a corporate structure with some kind of support from the parent companies but the thing is that so far this was impossible to be financed and now we are seeing how lenders feel more and more comfortable to finance it.

**Host:** Mhairi Main Garcia

And Rodrigo, could you maybe give some insights in terms of other financing methodologies that you're seeing? You know, you're seeing a lot of conventional financings, but are you seeing other types of methodologies? What's the practice there?

**Guest:** Rodrigo Berasategui

We are witnessing an interesting diversification of financing methodologies. Not only project finance but also including export finance. Last year we were able to get involved in a landmark transaction involving Iberdrola and Banco Santander with a cover of the Danish Export Credit Agency, EKF, amounting to €1bn. It was a huge transaction to help Iberdrola to buy equipment and machinery. More recently, we have also advised the lenders in the financing of a €500m transaction, again to be granted to Iberdrola, with the cover of a Nordic ECA.

So, we are seeing how the market is trying to look for other methodologies apart from the project finance. We are seeing also project bonds. It's true that in project bonds, and precisely due to the soaring interest rates, probably we are seeing in the last year fewer transactions and finally, even we have seen platforms of crowdfunding.

So that means, and to make this story short, we are seeing how that despite the contingent adverse conditions the financing of these assets looks pretty healthy.

**Host:** Mhairi Main Garcia

Some interesting transactions there and so it seems despite the challenges it sounds like there's a very active financing market and there's a real desire to fund renewable initiatives across the board.

What are your top tips for companies financing and looking to finance in the renewables sector?

**Guest:** Rodrigo Berasategui

Very good question. I always have the same answer. I think that there is a golden rule – that is not to contravene the standard market practice. Sometimes we have seen some kind of cultural clash, you know, and this is why sometimes we ask these players to somehow trust us. It could seem that this is not very important, but in practical terms, I think that this could be decisive to be honest.

**Host:** Mhairi Main Garcia

So, avoiding the cultural clash, of course that's pretty fundamental. Let's look at the future.

What are the most important steps in the next five years to help the renewables sector in the drive towards net zero?

**Guest:** Rodrigo Berasategui

A very good question Mhairi. I think that leaving aside these more contingent circumstances such as the high interest rates or these problems with the supply chain etc. I think that there are more in-depth, not problems, but current circumstances to be sorted out. There are quite a few challenges ahead of us. First and foremost, and I had the chance to speak about that before, but probably one of the most important is to increase and develop interconnections. We are seeing how there is a boom of renewable energy projects, at least here in Spain, but I know in other jurisdictions too. And, in order

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to be able to have all of them operative and trying to produce as much as possible with no kind of curtailment, it's absolutely key to increase and develop interconnections. We are seeing how there are plans to carry out some auctions of new points of access and connection and I think that this is key. Also, sometimes we lack regulation regarding how to implement that and how to regulate the agreements between the different producers which will inject in the same point. We are seeing sometimes how they clash precisely because of a lack of regulation. I think that this will be key. Obviously, and somehow connected with this interconnection, we are seeing how there is a very important challenge – that is to promote the storage facilities, which involves streamlining authorisation procedures for both hybrid and standalone storage. But also, to further define the remuneration scheme; we are seeing this price arbitrage, but it seems that this will not be enough and some kind of further support from the governments will be needed in line with what is suggested by the European Union.

**Host:** Mhairi Main Garcia

Thank you, Rodrigo, for sharing your expertise today. To sum up some of the key points.

Renewables are at the heart of the drive towards achieving net zero. There's a healthy pipeline of projects and strong support to finance these projects, both traditional financings but also export credit agencies and institutional financings, as well as newer financing models such as green bonds and project bonds and even crowdfunding.

The key term that you used was flexibility. Flexibility was emphasised in relation to the trend that you are seeing from the financiers. But, it's not a panacea. There are challenges. There's a need to upgrade and build new interconnections. There's a need for cross-border regulations and cooperation around connectivity. Technology developments are critical, especially in relation to storage.

So, I think from our conversation all in all, the future seems bright when it comes to renewables and the role they play towards achieving net zero.

Rodrigo, thank you for being our guest today.

**Guest:** Rodrigo Berasategui

Thank you so much. It was really a pleasure.

**Host:** Mhairi Main Garcia

And many thanks to you, the listeners. Please do get in touch with your feedback or if you have any questions about the subjects we have discussed today.

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We look forward to welcoming you to our next episode of Watson Farley and Williams' 'Countdown to COP: Financing and Fuelling the Future' podcast series.

Thank you.

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