Building an Innovation and Entrepreneurship Driven Economy: How Policies Can Foster Risk Capital Investment in Renewable Energy

Webinar
May 4, 2011
The Solutions Center is designed to assist Clean Energy Ministerial countries and partners with the design and adoption of clean energy policies and deployment programs. It serves as a virtual clearinghouse of clean energy policy information and tools and leverages assistance available through other Clean Energy Ministerial initiatives. It also offers peer-to-peer learning, remote expert assistance, and online training.

Webinars are facilitated learning sessions to discuss and learn about experiences and best practices in priority areas from our global colleagues.
Panelists

Dean Cooper
Head of Finance Unit
United Nations Environment Programme (UNEP)

Charlie Dou
CEO
Beijing Bergey Windpower

Jim Matheson
General Partner
Flagship Ventures

Marty Murphy
Enterprise Development Program Manager
National Renewable Energy Laboratory

Andres Pesce
VP of Business Development & Investment
Fundación Chile
Jim Matheson  
Flagship Ventures

- General Partner
- Flagship Ventures is an entrepreneurship and venture capital firm focused on creating, financing and building breakthrough companies in the sustainability and healthcare arenas. Flagship manages $900M from its offices in Cambridge, MA but searches for world-class innovations wherever they are occurring.
The Government: Friend or Foe to Financiers?

Jim Matheson
General Partner

One Memorial Drive
Cambridge, MA USA
FSV’s Mission: Uncovering Big Ideas

“This could be the discovery of the century. Depending, of course, on how far down it goes.”
FSV’s Strategy

Breakthrough technologies

Healthcare

Sustainability
Clean Tech Investment Framework

Generate
- Fuels
- Electricity
- Materials
- Chemicals

Distribute
- Distributed Production
- Smart(er) Buildings
- Energy Storage
- Smart Grid

Consume
- Industrial Processes
- Energy Efficiency
- Demand Management
- Transportation

Impact
- CCS
- Water
- Waste
- Biomass
Clean Tech Startup Lifecycle

Stages:
- Basic Research
- Proof of Concept Development
- Venture Formation, Commercial Viability
- Venture Financing, Market Entry
- Product, Project Production & Growth

Barriers:
- Research Funding
- Prototypes Funding
- Business Planning
- Experienced Entrepreneurs
- Seed-Stage Funding
- Venture Capital, Private Capital
- Private/Public Partnerships
The Role of Government

“I’m From the Government and I’m Here to Help”

- To set broad energy & resource **POLICY**
- To provide **FUNDING** for public good
- To design and implement **INCENTIVES**
- To facilitate **PERMITTING** processes
Energy & Resource Policy

Examples:
- Renewable portfolio standards (RPS)
- Carbon trading schemes (CDM)
- Energy efficiency targets
- Nuclear energy strategy

Impact:
- Helps drive long term capital allocations
- Helps cross industry / technology coordination
- Lack of policy hinders long term project(s)
- Dynamic policy worse than a steady / bad policy
Funding

- Examples:
  - Nat’l labs (basic research, early applied)
  - SBIR, NIST, etc. (more applied)
  - ARPA-E (targeted to specific technology areas)
  - Loan Guarantee program (help scale first of a kind projects)

- Impact:
  - Create breakthrough capabilities without commercial pressure
  - Prepare technologies for next stage of funding
  - Provide incentives for capital deployment
  - Enable next-gen technologies to reach commercial scale
Incentives

Examples:
– Investment & production tax credits
– Feed in tariffs
– LEED standards

Impact:
– Increase IRR on capital projects
– Help drive down cost curve for early technologies
– Drive buyer behaviour(s) to incent “good” behaviour via economic rewards
– Can create perverse behaviour and can have unintended economic value transfer
Permitting

Examples:
- Construction permits
- Off-shore wind project(s)
- Grid interconnect for renewables
- Automobile certification

Impact:
- Protect stakeholders and enable an open dialogue
- Uncertainty impacts capital deployment
- Stakeholders often get more power then appropriate
- Permitting risk late in process stunts project launch
- Often neighboring “permitting agencies” have different views
Governmental action GREATLY impacts capital deployment

- **LONG TERM & STABLE** policies are key to innovation and capital deployment
- Government should **COOPERATE** with private capital to ensure capital continuity, not replace / bolster
- Incentives need to drive **DESIRED** behaviour
- Permitting processes should be **PREDICTABLE & TRANSPARENT**
Charlie Dou, Bergey Wind Power

- Vice President for Asia of Bergey Windpower Co. USA; CEO of Beijing Bergey Windpower Co.; Adjunct Professor and Research fellow, West Texas AM& University, USA
- Bergey Windpower has been building high-reliability, extremely low maintenance small wind turbines up to 10 kW for over 30 years, with over 7,000 units installed covering all 50 U.S. States and over 100 countries.
Webinar: How Policies Can Foster Risk Capital Investment in Renewable Energy

What types of renewable energy policy mechanisms can best help an entrepreneur and small to mid size clean energy companies expanding into new markets

Adjunct professor, West Texas A&M University, Texas, USA
Vice-president for Asia, Bergey Windpower Co., OK, USA
Charlie Dou

May 4, 2011
Overview of Government RE policy

The mixture of relevant policies and regulations can be considered in two main categories:

- Fiscal, Incentives
- Law, regulations, and guidance
Overview of Government RE policy

Incentives
Methods: Financing, tax credits, subsides, rebates, net metering, FIT

Targets: Project developers, business (Utility, power producers), manufacturers, customers, organizations (government buildings, schools), etc.
Overview of Government RE policy

Institutional

- Law, regulations, roadmap, Renewable Obligation, etc.
- Standards, certification, etc.
Long-term mechanism vs short-term program

- Lots of government prefer "Programs".
- Rush in & Rush out (Not willing to long-term investment, Less R&D)
- RE industry is quite different than most traditional industries.
- Needs high initial investment, slow payback, looking for long-term operation
- Highly relying on government long-term policy.
Gov’t policy effectiveness

Long-term mechanism vs short-term program

- A policy or policy mechanism which can provide the investors a clear, sustainable, long-term picture will be the most important ones.
- Business and investors are mostly afraid of the unclear, fluctuated and short-vision policy.
Gov’t policy effectiveness

Example 1: China wind power industry development

Overview:
New installation (2010) : 12,904; capacity: 19GW, growth rate to 2009: 37.1%.
Total units: 34,485; Total capacity: 44.7GW
Gov’t policy effectiveness

Example 1: China wind power industry development

Policies create the market demand

China wind power installed capacity exponential growth since 2004. Major contributor: Renewable energy law”.

Milestones:
• “Renewable energy law”,
• Regulation of Renewable Energy Power Price and Expense Sharing Management (shortened to “Method”) was published by China NDRC
• Fixed FIT: 0.51, 0.54, 0.58, 0.61
• Government promises on G20 meeting that China shall achieve 15% of energy consumption from non-fossil fuel in 2020.
Gov’t policy effectiveness

Example 1: China wind power industry development

Source: GWEA
Gov’t policy effectiveness

Example 2: China Goldwind S&T Corporation

HONG KONG, Sept 25, 2010 (Reuters) - China’s second-largest wind turbine maker Xinjiang Goldwind S&T (002202.SZ) revived its initial public offering plan in Hong Kong and has set its initial public offering price on Saturday to raise up to $917 million, a term sheet showed.

- Found 1998 based on Xinjiang Dabancheng No. 2 wind farm, under ministration of Department of Water conservation. 20-30 employees. Introduced German500KW, developing it as 600KW. Difficult for surviving until 2005.
Gov’t policy effectiveness

Example 3: China Small wind power

2009 Global small wind power new installation

<table>
<thead>
<tr>
<th>Nation</th>
<th>2009 (MW)</th>
<th>%</th>
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<tbody>
<tr>
<td>China</td>
<td>84.7</td>
<td>64.1%</td>
</tr>
<tr>
<td>USA</td>
<td>20.3</td>
<td>15.4%</td>
</tr>
<tr>
<td>UK</td>
<td>17.2</td>
<td>13.0%</td>
</tr>
<tr>
<td>Other (Est.)</td>
<td>10</td>
<td>7.6%</td>
</tr>
<tr>
<td>Tot (MW)</td>
<td>132.2</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

2009 SWT installation by major nations

- China: 64.1%
- USA: 15.4%
- UK: 13.0%
- Others (Est.): 7.6%
Gov’t policy effectiveness

Example 3: China Small wind power

Position of China SWT in National Power structure

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<table>
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<tbody>
<tr>
<td>Tot Power capacity</td>
<td>960,000MW</td>
</tr>
<tr>
<td>Accumulated installed SWT</td>
<td>200MW</td>
</tr>
<tr>
<td>% of Tot power capacity</td>
<td>0.02%</td>
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</tbody>
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* By end of 2009, tot installed capacity ~150MW, 2010 sales: 130MW, export ~50%, 1/3 to be used for replacement, Est. new increased capacity 50MW

LWT 3.3%

Power generation (2010)

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<tr>
<td>Tot power consumed</td>
<td>4.2x10 kWh</td>
</tr>
<tr>
<td>Est. generated by SWT</td>
<td>3.65x10 kWh</td>
</tr>
<tr>
<td>%</td>
<td>0.0087%</td>
</tr>
</tbody>
</table>

*Est. working 5 hrs a day

● Developed much earlier than LWT
● Current industry scale is tiny
● No supportive policy
Thank you for your attention!

Beijing Bergey Windpower Company, Ltd.
Peng Run Garden, Hao Yuan, Tower A, Room 701,
No. 88A Cai Hu Ying E. Street,
Fengtai District, Beijing 100054, P.R. China
Tel: (86 10) 6333 2724, 6333 2704
Fax: (86 10) 6333 2724-111
Email: cdou@bergey.com.cn
http://www.bergey.com (Bergey Windpower Co. USA)
http://www.bergey.com.cn (Beijing Bergey Windpower Co.)
L. Marty Murphy
National Renewable Energy Laboratory

- Enterprise Development Program Manager
- NREL is the only federal laboratory dedicated to the research, development, commercialization and deployment of renewable energy and energy efficiency technologies.
NREL Growth Forum.. What is it?

- A venue providing access to capital
  - Early Venture is the sweet spot
  - Competitive process to present
  - National in scope
- A partnership and relationship building platform fostering networks and collaboration
  - Investors (VC’s, Strategic, PjF, other)
  - Entrepreneurs
  - Private and public sector (e.g. legal)
  - CTO, Incubators etc.
- Ties to Economic (and CE Cluster) Development
Stages of value for startups

Apply
- **Value**: Hundreds of emerging companies are exposed to hundreds of investors and potential partners
- **2010**: 197 applications of which 62 were seed stage, 121 were early stage, and 14 were later stage & expansion capital

Select
- **Value**: All applicants receive critical feedback from investors
- **2010**: 130 investors representing sophisticated angels, venture, and strategic investors

Present
- **Value**: Presenting companies receive critical feedback from investors
- **Value**: Presenting companies are aligned with investment mentors
- **Value**: All applicants can attend the Forum at a significantly reduced rate
- **2010**: 34 presenting companies
Colorado Applicants – 46 in 2010
Added 3000 + US jobs
Realized $1 billion + in sales
Raised more than $3.4 billion (as of August 2010) since giving their presentations
Raised $726.9M in cumulative financing within one year; $1.36B within two years of participating in the forum
~59% of the companies that participate in the Forum have received funding
Fosters engagement with regional economic development
Preliminary Conclusions from Recent Study*

• IGF helps companies raise money—on average presenters raise $4.4M more than non-presenters
• No evidence of regional effects
• Groups of experienced investors collectively are good predictors of company success
• CTO is a good preparatory activity to increase chance of getting into the IGF
• IGF presenting companies are more highly networked with VCs
• First evidence that properly executed business plan competitions can help stimulate technology transfer

* To appear shortly, based on 5 years of data
Dean Cooper
United Nations Environment Programme

- Head of the Energy Finance Unit
- UNEP's mission is: "To provide leadership and encourage partnership in caring for the environment by inspiring, informing, and enabling nations and peoples to improve their quality of life without compromising that of future generations"
DIVISION OF TECHNOLOGY, INDUSTRY & ECONOMICS (DTIE)
(UNEP Lead for Climate Change)

DTIE Branches: Energy, Sustainable Consumption & Production, OzonAction, Economy & Trade, Chemicals

Focus: Renewable Energy & Energy Efficiency
CRITICAL FACTORS FOR RISK MANAGEMENT

- Public finance to leverage private investment
- Perceived & actual risk
- Policy, regulation, legislation
- Country-dependent
- Appropriate technology
- Practical demonstration & local partnership
Standard Due-Diligence Steps for Renewable Energy Projects

- Business plan (financial models, sales projections, market, competitors, fuel source and security)
- **Permits and environmental approval**
- Technology involved - reliability and operating history
- Power Purchase Agreements, Green Certificates, Carbon Credits
- Price per kilowatt hour of electricity/tenor or agreement
- Experience and reliability / creditworthiness of all parties involved
- Schedule of project milestones for completion of various tasks
- Security payments that the contract requires
- Insurance provisions for any losses that impact revenue generation
- **Regulatory environment - possibility of charges to policy environment which can affect the economics of the project**
- Financial interest in project
- Other risk elements that impact the project’s ability to service its debt

=> *policies required but not sufficient for investment*
Meet your insurance expert

CarbonRe, the RSA Group and Munich Re have joined forces to provide through insurance4renewables tailored financial risk management instruments for renewable energy projects and support the development of solutions that meet the needs of renewable energy markets worldwide, namely in developing countries.

insurance4renewables covers a wide range of renewable energy technologies including wind power, solar photovoltaic, solar thermal, biomass and biogas systems.

Learn more about us

Risk management Our experts offer risk solutions and support for all project phases.

Our network offers worldwide support for your innovative projects.

Official Partners:

- UNEP
- GEF
- CarbonRe
- Munich Re
- RSA
Andrés Pesce
Fundación Chile

• Vice President of Business and Investments
• Fundación Chile, a non-profit privately owned corporation who’s partners are the Chilean Government and BHP Billiton-Escondida Mining, works to foster technology transfer and innovation for Chile. We partner globally to provide a high impact response to better address our country’s challenges—ultimately today’s global challenges: sustainability, human capital development, healthier and more functional food, and the incorporation into the digital economy.
SING: Mix and Emission Factor

SING 2010

- Diesel: 0%
- NG: 59%
- ERNC: 34%
- Coal: 7%

SING 2020 BAU

- Diesel: 52%
- NG: 37%
- ERNC: 5%
- Coal: 6%

SING CO2 Emission Factor (tCO2/GWh)

Source: CNE, IPCC, EIA, PUC

Confidential
Atacama Desert

- 40,600 square miles
- World’s largest Copper & Lithium Reserves
- Driest place on the planet (rain 1mm/yr)
- Atacama Large Millimeter Array (ALMA)
- Highest electricity prices in LATAM
Mining Industry Expansion

US$50B Expansion plan by 2015
+50% (2GW) increase of generating cap.
Mine’s supply decision will define SINGs future generating source mix
Increased valuation of renewable and carbon footprint reduction
20.257 Law: ERNC 5-10%
Increased interest to have direct supply or NCRE in SING (geotérmica, eólica y solar)

SING’s mix will be defined in 2010-2015
The opportunity

- New Copper investment ($50B)
- +50% (2GW) increase of generating cap
- Highest Electricity prices in LATAM
- RPS standard - 5% → 10% (2024)
- 98% dependent on fossil imports (SING)
- 4000km² of available desert for solar production equating to nearly 200 Gigawatts potential (CNE)

Highest Solar Irradiation in the World
Solar Chile

- Solar Chile develops & operates utility scale solar plants
- Target clients are large mining and industrial companies in Chile
- Solar Chile is technology neutral
- Promote development of solar cluster

Development + Operation

- Land
- Contracts
- Technology
- Finance

- Operation
- Maintenance
- R&D Interface
Feel free to pose your questions to the panel or individual panel members via the web-conference messaging feature.
Other Resources

- www.cleanenergysolutions.org
- Available resources:
  - Recorded version of this webinar including slides
  - Frequent webinars
  - Ask an Expert & Peer Forum
- Other feedback/suggestions: webinars@cleanenergysolutions.org