



Timely thematic topic:

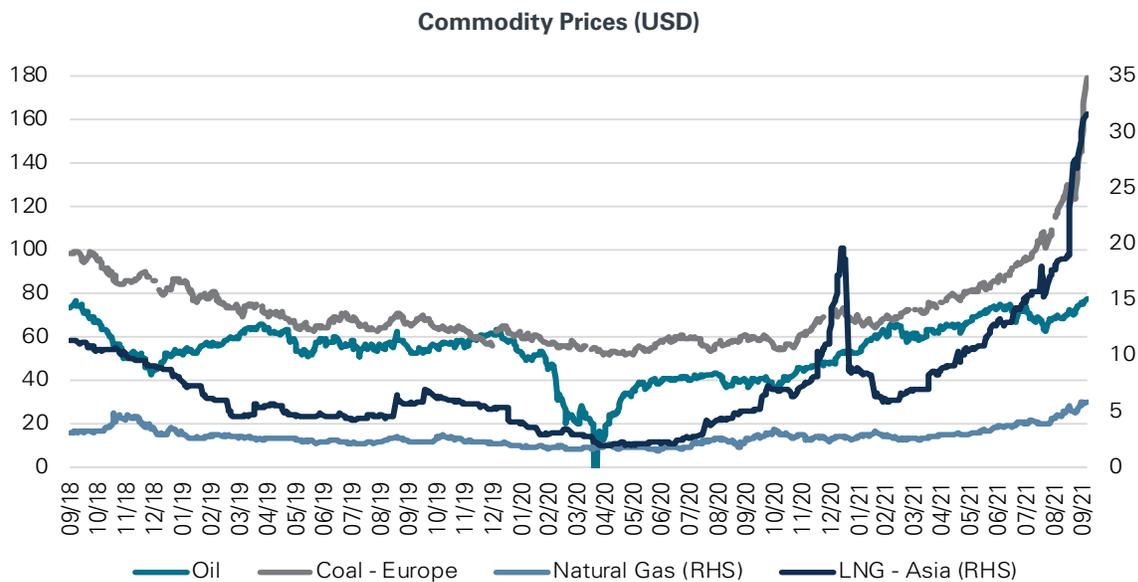
Electricity inflation: Renewables are a big part of the solution

Apart from the undeniable need for the ‘green’ attributes of renewable energies, we argue that the world’s experience today of soaring energy cost inflation makes the case for renewables stronger than ever.

Much of the current discussion about renewables centers on their decarbonization benefits and cost differential with fossil fuel alternatives. These are key attractions of course but it is worth highlighting two others, especially at times of high commodity price inflation and geopolitical tensions.

First, we all know that renewables generators have the inherent advantage of not having to rely on any fuel, with wind, sun and water, rather than conventional fuels, producing electricity. This is obvious but can sometimes be forgotten as a key attraction of the renewables technologies. The beauty of renewables for consumers of electricity is, therefore, that the cost of electricity is not variable; renewables are fixed cost in nature and deliver electricity at a predictable price, one that can be set for 10 or 20 years in advance. In contrast, the cost to consumers of electricity generated by coal and gas power plants fluctuates with the prices of coal and gas in the open markets, which can be significantly impacted by supply-demand imbalance and today we see these commodity inputs are sky-rocketing (Exhibit 1).

Exhibit 1



Second, renewable electricity is either locally generated or transmitted regionally by power cables and lines, hence it is not exposed to cost increases caused by logistics bottlenecks (Exhibit 2 illustrates the cost of shipping, for example, LNG, oil, coal) or international trade or other conflicts with countries where the fuel commodities are sourced. Electricity independence and, by extension, energy independence is not only a strategic benefit to any country in terms of security of supply but also an economic one with respect to the balance of trade.

Exhibit 2

Baltic Exchange Dry Index

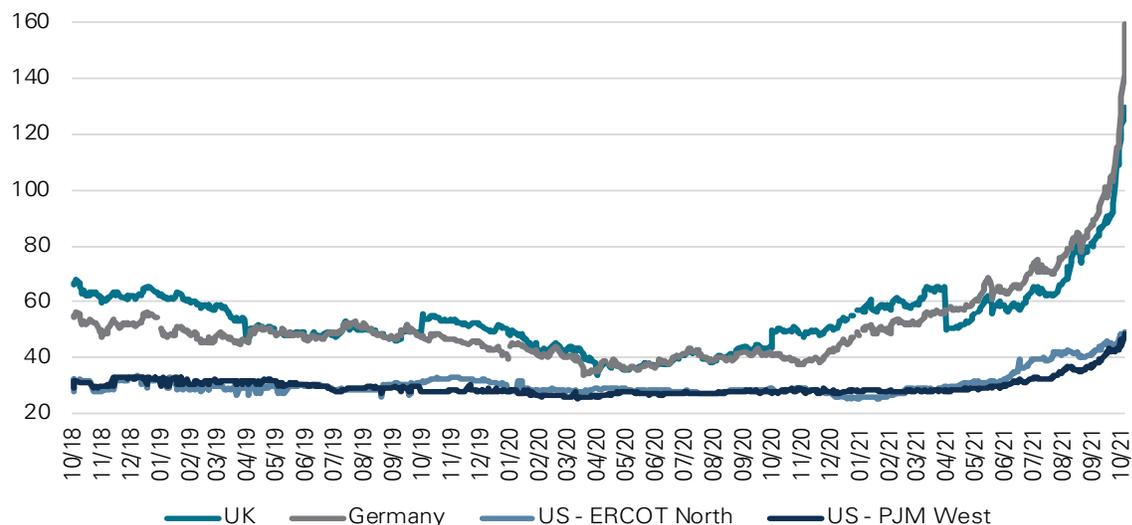


Source: Bloomberg

Businesses cannot afford to see their margins shrink or vanish because their cost of electricity rises exponentially (Exhibit 3). Even if they hedge in the short term, rising and volatile electricity costs are an unnecessary headwind they should avoid. And consumers also cannot see their disposable income evaporate as their electricity bills increase.

Exhibit 3

Electricity Prices (Local Currency)

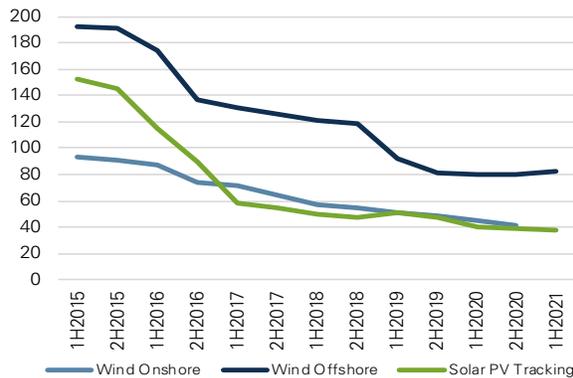


Source: Bloomberg

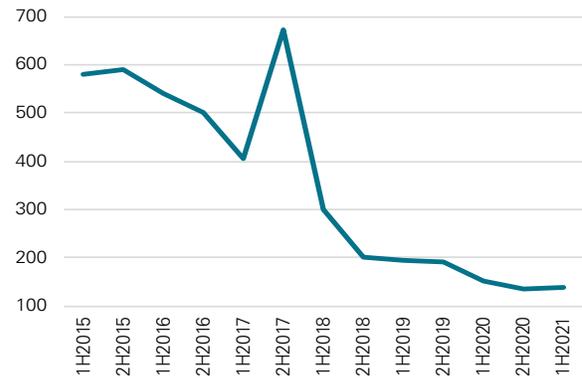
In contrast with electricity costs generated with conventional fuels, renewable electricity costs remain in a structural downward trend (Exhibits 4 and 5), even if we can expect some inflationary pressures on equipment from steel, polysilicon and logistics costs in the near-term.

Exhibit 4 and 5

Global LCOE - \$/MWh



Utili-Scale Battery (4h) - Global LCOE - \$/MWh



Source: Bloomberg New Energy Finance

Renewables therefore offer green, predictably priced, local and affordable electricity to businesses and consumers. Consequently, we believe that the recent price developments in the energy and electricity markets will have two major consequences. We anticipate will almost certainly serve to:

- Accelerate the development of renewables and storage
- Spur a sharp increase in corporates signing Power Purchase Agreements (PPAs) with renewables developers and operators to secure long-term predictable electricity prices

Before concluding, it is only fair to acknowledge that renewables such as wind and solar, on their own, cannot provide today the stability of electricity supply needed in most places around the world. This gap is pertinent as electricity consumption grows by taking market share from other forms of energy – such as oil as electric vehicles replace internal combustion engines, and natural gas as green hydrogen replaces grey hydrogen. Renewables capacity needs to increase very substantially everywhere to ensure reserves, a variety of technologies is needed to manage seasonality and variability, storage capabilities must be developed at pace, and transmission capacity needs to be expanded to really take advantage of a network effect.

Renewables are a key element of the solution to the energy crisis the world is experiencing. As such, growth in development of renewables is anticipated to accelerate, even before considering the expected impetus provided by world leaders at the upcoming COP26, and it will be profitable for experienced operators.

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