



INDUSTRIES OF THE FUTURE 4.0

Workshop – Towards an economic redeployment through energy – Monday 30 March 2015

“Energy Finance”

The stakes of energy finance

The cost of energy is a key element in the pursuit of industrial competitiveness. Whereas companies can identify points to improve in energy efficiency without much difficulty, the underlying solutions are often too expensive and difficult to finance by certain structures.

Introduction

Energy is a cross-cutting issue for economic deployment and re-industrialisation.

One of the lines of action considered for companies that wish to invest but do not have access to financing would be to go from a binary industry-financing relation, to a tripartite industry-supplier-financing version so as to “de-constrain” the initial rather unattractive model in order to finance the investment.

A sort of “virtuous delta” will have to be created therefore to make financing attractive by aiming at double value creation:

- Increased competitiveness for industry → preservation or development of the activity
- Increased activity by solution providers

These initial reflections are submitted to the group.

Summary of the discussions

The discussions revealed the following elements:

1. Challenges to launch the innovation for energy

- In spite of the low rates, given the economic situation, many companies are not capable of initiating/continuing investments on the energy front.
- The time of return on investment may prove relatively long, greater than 8 years.
- The differences in energy costs throughout the world are enormous and are really undermining our industries
- The energy purchase / sale optimisation techniques are useful but cannot address the core of the problem; the search for “technical” efficiency is also necessary.

2. “Psychological” approach

- The industrialist’s personality and strategy are also parameters to be taken into account for his acceptance of the risk and openness to a third investor.
- The capacity/determination of companies to work in a “non-conventional” economic model.

3. Difficulties: between complexity and uncertainty

Uncertainties relating to the context

- The energy market is very / too fickle. The uncertainty of the energy price stands in the way of broaching strategic choices with calm and makes the potential ROI hypothetical.
- The regulatory context is at times still blurry when it comes to energy.
- The geopolitical context.

⇒ Aim at flexibility

A complex micro- and macro-economic context

- The financial stakes relating to energy efficiency extend beyond those of industry, to the entire energy chain and its (complex) plethora of stakeholders.
- The reputation (and functioning) of the European continent for economic policies that are not very favourable to entrepreneurship cause a reduction in investments of international groups.

Incomplete knowledge

“If you can’t measure it, you can’t manage it.”

This “maxim” applies as much to industrialists who tend to limit themselves to measuring “major items” as to the public authorities, which tend to follow only large consumers. But we cannot take action on what we do not know.

⇒ The counterpart of the ADEME is missing

⇒ An inventory of fatal energies?

The return on investment rarely lies only in energy gain, but also in different parameters such as quality (e.g. new, more economical furnace with higher quality heat for more efficient combustion).

4. A generalisation of a difficult model

Different realities

The economic reality of the investment can be very different from one industry to the next. In some sectors, the direct ROI can be enormous; in others more limited. The reality of the financial negotiations is therefore very different.

Different needs

The need to invest may aim at a financial gain, but may also have a political dimension, a determination to improve the image or to enhance flexibility. The financial rationale is not the only one therefore.

It is necessary to distinguish 2 types of investments that generate a different reasoning.

1. Investments aimed at a known technology
The difficulty is not so much to find euros, but an agreement between the parties who generally do not share the same timeframe.
2. Investments aimed at a technological development
The stakes and risks here are completely different.

5. Avenues for reflection and levers

Public interventionism

The assembly pointed to the need for political intervention (inducements, standardisation, etc.) to gather momentum. Tools exist, and it would be a shame not to rely on them.

- The sector agreements: <http://energie.wallonie.be/nl/accords-de-branche.html?IDC=6152>
Remark: The second generation of branch agreements requires obligations of results and not of means

Green certificates

Remark

It is important, irrespective of the tool put in place, to ensure its stability at least in the medium term.

Companies want to know what game they are playing in.

And elsewhere?

In France: Energy savings certificate

Potential modes and sources of financing

The pooling of equipment, through joint ownership, for instance

Remark

There are no impact studies upstream from the companies at present.

Financing by pooling of projects to dilute the risk.

Recoverable advances (model of the Marshall Plan in Germany)

Reimbursement of the company only in case of success and delayed in time

Recourse to a third party investor

Creation of a fund dedicated to energy efficiency (this exists in Flanders)

Permanent fund – revolving fund: private and public, the public can accept more risks

PPP = Holy Grail in Quebec → Example to follow?

SPV: Special Purpose Vehicle – often used in securitisation operations consisting for instance of assigning a claim to a third party who will honour it in exchange for securities. The SPV will make it possible to eliminate any correlation between the risk borne by the securities obtained from the securitisation and the risk borne by the institution assigning the underlying assets of the securitisation operation.

SRIW: Possible intervention to mitigate under-capitalisation, but cannot take the risk alone. Remark: the SRIW is in search of projects to support.

Recourse to European financing

H2020 – Energy Efficiency – Deadline 5/6

<http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/2381-ee-20-2015.html>

Advantage: local consortium possible

Juncker plan – European investment plan

<http://ec.europa.eu/priorities/jobs-growth-investment/plan/index.fr.htm>

Remark: Belgium is not yet positioned in relation to this plan, which could be used to guarantee long-term loans for risk energy projects.

6. A banker's point of view

Banking context: Basel III agreements: http://fr.wikipedia.org/wiki/B%C3%A9le_III

A bank lends either to a company, in which case the industrialist's vision and the sustainability of the site are essential (guarantee), or to a project, which has to be profitable.

For investments in energy, the 2 aspects are often mixed, which complicates matters and the search for balance in the relation.

The intervention of a third investor is not problematic.

It is necessary to find formulas that can dilute the risk and/or to distribute it "fairly," taking into account the economic model of each of the parties, in particular the "payback time."

The public here can certainly play a role to mitigate the difference in time frame.

Remark

In terms of time frame, 8 years seems to be a pivotal term beyond which access to financing gets complicated.

In practice

The objective would be to work on concrete cases.

Our line of thought could be as follows:

1. What?

At issue is: what to finance exactly?

The “validated” criteria during the workshop are:

Energy efficiency
Flexibility in response to the uncertainties of the market

In this connection, the group pointed to 2 types:

Projects with “known” technology
Projects with a technological development

The payback time may prove a tool to segment the projects.

Consequence:

It is therefore probable that different “pilot cases” are needed to build a model.

2. For whom?

Which are the beneficiary industries of the economic model to be developed? What are the criteria for accessing the model?

A central element seems to be the sustainability of the site. How can it be considered?

3. By whom?

Who is going to execute the projects?

How can the solution providers be matched with the requesting industries?

4. How?

The financing principles must be defined

Capital
Loan
SPV
Other

5. With whom?

The potential stakeholders mentioned:

The banks
Europe
The local public sector
Etc.

Conditions of success

1. Political impetus

In any event, impetus through the political world (inducement, standardisation or other) seems to be necessary to get industrialists to invest.

A reflection on the political environment in the wide sense seems important. Let us bear in mind the desire of participants to join existing initiatives and in particular sector agreements.

2. Quality of the partnership and the partners

The model to be defined will comprise different stakeholders: a real partnership rationale between them is needed for a new business model to be viable.

By the same token, the different parties must be of quality (notion to be specified), particularly in the case of a third investor, not always seen favourably by companies.

3. Timetable of the reflection

Some have pointed out that progress had to be made on a model before necessarily involving all the public stakeholders so as to identify with precision the requirements to put to them.

The goal is to be ready with a model to support energy retrofit in SMEs by the end of 2015 with pilots projects and have a model to introduce to the EU (H2020 – Technical assistance) by June 2016.