



SOMETHING **IN THE AIR**

Platina's **Thomas Rottner** and Your Energy's **Richard Mardon** deny that renewable energy is a bubble. In fact, the sector requires a whole ecosystem of businesses to support it. And private equity has a massive role to play.

PLATINA FINANCE IS PLANNING TO MORE than double its funds under management through its latest fundraising effort, targeting €250m, with a hard cap of €300m. The European Renewable Energy Fund reached a €74.6m first close on Christmas Eve, mainly from existing investors.

The firm, which has been investing in wind energy for several years, is planning to expand across Europe and branch out into offshore wind and solar projects. The fund will invest mainly at the construction and operational stages, although €30m will be reserved for projects in the development phase. Platina managing director **Thomas Rottner** (pictured above left) and **Richard Mardon** (right), managing director of affiliate **Your Energy**, talk about the prospects for renewable energy investment in Europe.

How did you become involved in renewable energy investment?

TR: We were originally the investment arm of the CNC shipping group. We started with a €45m buyout fund, which is now almost completely invested, but very quickly realised we should move into renewable energy. From the beginning, we believed it would take off. We started by putting small amounts of money to work, buying companies and rights to land in the UK.

In 2005 we diversified our investment base with institutions such as Santander, Side Holdings and Consensus Group. At that time, we developed what was essentially two funds, one dealing with the development risk in the early stages of the project, and the other holding the asset. The main activity was building wind farms.

In essence we had one yield fund - because it's essentially a yield play with a capital gain from the exit - and a high-risk venture fund. That was necessary because at the time the third-party investors didn't want risks. They were quite comfortable with an asset play, even though those were very new assets at the time. They were not comfortable with the development risk.

Today this has reversed, because investors realise that in order to have assets at a cheap price you need to invest before they are built. So this fund takes both risks.

The big change came in the last quarter of 2006. Just before Christmas, renewable energy became the subject of the moment. Now, just because some money has been raised in the sector, investors are asking: isn't it a bubble? Of course it's not a bubble, even though prices are extremely hot these days.

Which countries do you think are promising?

TR: We operate all over Europe. We have offices in London and Paris, and we are probably going to open one in Italy pretty soon. When we see certain markets coming up then cooling off, or hotting up too much for us, we need to be able to move speculatively and grab the right projects where they are. We started in the UK, where the market worked very well until the end of 2005, when things came to a complete standstill, but investment started again this year.

Will pending legislation benefit renewables?

RM: Three major pieces of legislation are going through the UK government in 2008: the energy bill, the planning bill and the climate change bill.

The planning bill misses the boat. Their idea is to create an infrastructure planning committee to facilitate important infrastructure projects, but its focus is on airports, roads, nuclear power stations and large-scale wind farms – the threshold is 50 megawatts. However, most of the wind farms stuck in the planning process are smaller. The cynics would say it's just a way of fast-tracking airports and new roads.

The planning process in the UK is dominated by local politics, and the message from the top is not getting down to the local authorities. In France, a lot of the benefits from a wind farm are directed at the local community; here, everything is centralised. Reform is necessary so that more of the financial benefits of a wind farm go to the neighbourhood that has it on their doorstep.

TR: We were investing in France, where there is a published tariff – which we like because you can raise more debt – early on. We did some very successful deals, including SFE, where we made a ten-times return. In Italy, where there is a green credit scheme, we are about to close several projects. In Cyprus, we have the only renewable energy project of any substance.

Germany is an interesting proposal because Germany has been developed on the back of tax incentives. You have lots of doctors and dentists owning a third of a turbine; they pocket the tax credit but the turbines don't work, so what they need is a second generation re-powering of the current turbines. This is promising for us.

Are the big opportunities onshore or offshore?

TR: The time for people like us to go into offshore has arrived. We think there may be some projects in Scandinavia, as well as in Germany and Italy. The big question is: are we going to meet the emission reduction targets? The answer is no. Then we have to ask, what technology can help us achieve the targets? And the answer is wind. Onshore and – hopefully not too far in the future – offshore as well. We will need the offshore wind energy to make a dent in those targets.

What would be the ideal energy mix?

TR: That's a big one. Let's be black and white about this. There's no more gas, there's no more

oil. Uranium is an important component – there's a reason why Tony Blair went so strongly pro-nuclear just before leaving office – but uranium is also limited. When people say, "it's easy, we just build nuclear plants everywhere", that's not true.

We have 250 years of coal, and the other big advantage is that the coal is located where the population is – you have a lot of coal in the US and even more in China. So for me, coal is a very important fuel of the future.

Then you have what is unlimited: the true renewables – wind, solar and possibly current-based hydro schemes. The future is tidal energy, wind, solar, coal (hopefully clean coal) and a fair amount of nuclear.

How will the renewable energy sector evolve?

RM: Wind power is and will continue to be the backbone of the renewable energy sector for the next ten years at least. There is no other economically viable large-scale renewable energy that can be deployed. The 80,000 turbines worldwide at present is probably going to double over the next ten years.

It took something like 14 years to get the first gigawatt of wind power, then just 20 months to get the second. This acceleration will continue.

TR: Renewable energy today is mostly onshore wind power. Tomorrow it's also going to be offshore wind and solar. At present, solar projects are economically viable only south of the line from Madrid to Rome, but the capital cost of a solar panel is now collapsing, so that line is coming up. Probably by the end of the life of our new fund we will be invested in a few solar projects.

We might invest in one or two more biomass projects – we already have one in Ireland – but biomass is not the solution. First, biomass competes with food. Second, you have a supply risk here which you don't have with wind. You need to be in a very strategic location where it's obvious to everyone that your supply of fuel is guaranteed, as we are in Ireland.

What's holding back development of this market?

TR: There are a lot of constraints across Europe. There are many areas where there is good wind but it is not accessible, for reasons such as proximity to airports. These constraints are not uniform across countries: at Copenhagen airport you land next to a row of turbines, while the UK is extremely protective of its airports.

We are also limited by the supply chain for the manufacturing of infrastructure. There is a big gap between the standards in this industry and the standards in other manufacturing industries, and there is a shortage of turbines. If you want to buy a turbine today you can probably book one for the beginning of 2010. Once you have passed the huge hurdle of planning, you knock on the door of Vestas or Enercon – the largest manufacturers in the world – and you have to wait two years for it. That is partly because there was a bad estimation by the manufacturers of the acceleration in the market but also because it is not a sophisticated industry. Eighty per cent of gearboxes in turbines worldwide come from the same producer.

Now, the big boys have moved in and are starting to industrialise the process. The smart guys who will make money out of this are, for example, Goldman Sachs. Goldman Sachs bought into Nordex two years ago at a time when Nordex was almost bankrupt. Today they are laughing. It's a fabulous investment.

RM: It's not exactly a complicated technology. You've got a block of concrete in the ground and a big tower, and three blades and a gearbox. The Chinese and the Indians are beginning to break into the market, and I think there will be a sea change in the next five years. As well as turbine technology, the technology relating to radar and aviation needs to develop. A breakthrough in technology which would mean that radar systems can operate without interference from wind farms would probably unlock more land.

What will this mean for private equity?

TR: Fundraising will continue, as the industry needs a lot of money. The opportunity is huge. When people talk about investments in this sector, they always think about the projects themselves. Not much is said about the supply chain and the services around it. There's a whole industry to be created in servicing offshore wind farms, for example. Funds are investing in that already. There's a lot to be done to support this big industry which is now emerging, and it's going to fall over if people don't invest in the support sectors. A whole private equity-funded industry can grow up around renewable energy. ●

THOMAS ROTTNER and RICHARD MARDON were talking to CLARE NUTTALL, a senior reporter at Real Deals.

