RENEWABLES 2020

VIEWPOINT

EUROPE'S ENERGY TRANSITION IN THE AGE OF CORONAVIRUS

The energy transition in Europe, and renewables themselves, are currently seeing an evolution of its development stage. This has been ongoing for some time and essentially involves two changes.

Firstly, in the past, investments in renewable energy generation were almost exclusively characterised by investments in generation capacities. Yet the intermittent generation profile of wind power and photovoltaic plants, together with the increased share of renewables within the wider generation mix, requires additional transitional technologies, such as storage and transmission capacities. The range of potential investments in the energy transition space is widening.

Secondly, at the beginning of this energy transition, electricity production from renewables generally failed to be competitive with conventional generation sources due to their relatively high costs, albeit with some notable exceptions. This is why in the early phase – and in part through to present day – state subsidies and guaranteed feed-in tariffs were necessary to facilitate the development of the required generation capacities through yield-oriented private capital. However, continual technical progress and economies of scale have led to a considerable decline in the levelised cost of electricity across all forms of renewable generation.

In many cases, price competitiveness to conventional energy sources – the so-called "grid parity" – has been achieved for renewable energy investments.

THE IMPACT OF THE CORONAVIRUS

The pandemic and economic lockdown left their mark on electricity markets, with demand for electricity declining significantly. Consequently, there was a significant drop in prices on the electricity spot markets, with prices declining by up to 50% at times.

The PPA market, however, appears to have overcome its first major stress test. The conditions for new PPA contracts in Europe, as evidenced by the European PPA index PEXA Euro Composite, saw a lesser decline, falling by around 10% and in doing so formed a flat dent, which has more or less reverted to pre-crisis level. Although fewer contracts were concluded for a period, at the start of the European lockdown, the majority of market players appear to be convinced that electricity prices will recover in the mid-term. For institutional investors, this stability in the crisis is an important factor.

The long-term trends are, and will remain, in place. Climate protection and the shift in energy supply in Europe are at the top of the political agenda – and are being expedited accordingly. In addition, the transition from state-aided remuneration systems to stronger market economy mechanisms may well see some individual setbacks, but on the whole it cannot be stopped. Trends such as digitalization, which will require more powerful computing centres, and the electrification of mobility, which is still only in its infancy, will lead to demand for electricity increasing as opposed to declining.

AUTHOR

MICHAEL EBNER
MANAGING DIRECTOR, INFRASTRUCTURE
KGAL Investment Management GmbH & Co. KG
Tölzer Str. 15, 82031 Grünwald, Germany
michael.ebner@kgal.de