

The changing regulatory landscape in continental Europe

Q&A with Antoine Millioud, CEO, KKB AG



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KKB AG



Clean Energy Pipeline interviewed Antoine Millioud, CEO, Kleinkraftwerk Birseck AG (KKB), to understand how the changing renewable energy regulatory landscape is impacting investment decisions. Antoine also discusses the renewable energy project finance market and KKB's plans for 2015. KKB is an independent green power producer focusing on the acquisition and operation of small-scale wind, solar and hydro power generation assets in Switzerland and Europe. The company is listed on the BX Berne Exchange.

Can you outline your investment strategy?

We invest in wind, solar and hydro projects in Switzerland, France, Germany, Italy and Norway. Our ambition is to be a listed green independent power producer (IPP) with a broad portfolio across different countries and technologies. We have selected these countries as they are near Switzerland, have good renewable energy resources and the right legal frameworks to make investments possible.

We currently have 100 MW of operational capacity but want to grow this to 300 MW in the next three to four years. We are aiming for 40% of revenues to come from wind, 40% from hydro and 20% from solar.

Two-thirds of the capital is allocated to projects which are either just being commissioned or are already operating. The remainder can take construction risk. But we never take permitting risk, so the earliest point we get involved is when permitting is completed and projects are ready to be built. We want to be the long term owners of these assets.

Have tariff cuts in Italy materially changed the case for renewables investment?

Solar feed-in tariffs were cut, but fortunately we just started to enter Italy so were not too exposed to this. On the positive side it is history now and we can acquire new projects taking this into account. For wind we have a tender process. It is quite complex for developers to get their projects organised ahead of the tender and the investors will also be a bit exposed given that developers never know if their projects are going to get the tariffs or not. On the other hand, projects are becoming less expensive on a megawatt basis.

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What major regulatory changes have impacted the investment case for renewables in other markets?

France and Germany are in a transitional period in 2015 and 2016. These two countries do not yet have to change from tariffs to auction systems. We have good dealflow for 2015-16 and a lot of solid projects that are still based on previous feed-in tariffs. So developers are trying to get as many projects as possible on the ground during the next two years. We don't know what will happen from 2017 though. There is uncertainty in every European market that is switching to an auction-based system. Indeed developers are already getting nervous about caps in Germany.

Are the projects you invest in typically leveraged?

Generally the wind and solar projects come with project finance, which we like. We sometimes have to bring in debt at a later stage for hydro projects. Debt typically accounts for 70%-80% of the capital structure for solar and wind projects we invest in but around 40%-50% for hydro projects.

Has there been a material change in debt terms in the past 18 months?

In France and Germany project finance terms are 15 years and sometimes even 17 years. Interest rates have fallen so project finance conditions in the two main markets are very stable. But Italy has always been very difficult. Since the financial crisis there has not been much of a recovery. You can still get debt from smaller investment banks or small regional banks, but it is of course not comparable at all to Germany or France. In Norway, the debt is more similar to corporate debt and is less onerous than project finance in terms of documentation, with reasonably long terms.

How have returns changed in the past few years?

The returns are a function of the country risk and the project risk, so you have to ask for a higher return in a more risky country. So there is a return premium in Italy compared to France. There is also a difference in technology. Hydro has lower returns than wind and solar. I have heard that there has been an erosion of returns in the last few years, but I haven't really seen it so I am not sure if there is a large difference between 2014 and 2011. Interest rate reductions have contributed to this.

Does KKB plan to raise further financing?

In the last three years we have raised capital and each year we were able to secure capital from financial investors. We want to continue on this path of combining utilities and financial investors as our shareholders. We are planning further capital increases where we will again invite financial shareholders to invest alongside utilities.

How are policy changes at the European level impacting the investment case for renewables?

There will certainly be pressure in the next three years to increase the percentage of renewables in the power mix. I hope the CO₂ question will be tackled again, maybe in a few years, as the pricing mechanism for CO₂ doesn't really work at the moment. In the absence of such a mechanism we will continue to see coal-fired power plants being competitive against gas, which is really bad. We need a working CO₂ emissions trading system in Europe.

As a Swiss investor, with Swiss utilities as shareholders, we are very interested in the European market coupling and we would like to participate in it. Switzerland would like to be part of the European market. The European energy market is a reality which is growing every year. 2014 was an important year for this as a lot of progress has been made. For us in Switzerland, it is quite a concern that we are not yet contractually connected. It has to happen. Our whole investment strategy is based on the idea that we are one, big connected energy market.

For example the interconnectors between Norway and mainland Europe will go some way to solve the problem of network stability in Norway and it will improve our business case.

In addition, I expect general uncertainty will increase due to the incoming tender and auction systems in Europe for renewable energy. That will mainly create problems for developers. In the longer term I am a bit concerned about network stability and what happens if the feed-in priority that renewables have enjoyed is eroded. If that starts to fall away then we will be in a whole new area of capacity markets and overcapacity in some hours. That is one of the large uncertainties for renewables in the future, but I am talking 15 years from now, not in the next 10 years. ■

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Kleinkraftwerk Birseck AG (KKB AG), is an independent green power producer focusing on the acquisition and operation of small-scale wind, solar and hydro power generation assets in Switzerland and Europe. By 2020, KKB is aiming at a diversified, well-balanced portfolio of production units with a total installed capacity of 300 MW to become a leading operator of small power generation assets in Europe. The company is listed on the BX Berne Exchange (ISIN CH002377235).

