A Resilient Grid Would Stave Off Power Price Surges

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A more robust electricity grid with a broader generation mix and better energy storage would help to prevent significant power price increases, as seen in the market of late, said Richard Crawford, infrastructure director at InfraRed, the investment manager to The Renewables Infrastructure Group (TRIG).

“More renewables, or greater wind levels” would have alleviated the problem of very high power prices, had an increase in wind and solar power also been accompanied by energy storage and flexible sources such as hydrogen, said Crawford. Greater flexibility on the usage of power and better ways to store it, “will help us better cope with more intermittent generation across Europe and beyond,” he told BloombergNEF.

For investors like TRIG to put capital behind technologies such as green hydrogen and battery storage, governments need to step in to make the revenue line “more robust”, Crawford said. A “large-scale offtake market” must be created to ensure “stability in the revenue line over the long term”, he said.

Stimulating the hydrogen market in such a way would help to reduce risk and generate stable yield, helping to match the investment remit of investors like TRIG, he said. TRIG is a 2.5 billion-pound market cap renewable energy investment company with a portfolio of more than 80 wind, solar and battery storage projects in the U.K. and Northern Europe.

Read the Q&A with Crawford below.

Q: What is the approach of TRIG to the renewables market today?

A: We favor a diversified portfolio and more established technologies. Our focus is on yield – we prefer projects operating with tried and tested

Richard Crawford, infrastructure director at InfraRed

Source: InfraRed

technologies. Our current focus is on wind, solar and storage assets with a European focus. We have investments in the U.K., Ireland, France, Scandinavia, Iberia and Germany.

Our approach of exposure to many countries and different assets, gives us diversification on changes to policy regulation, weather and power prices. We also get resilience around underlying plant performance. This is our fundamental strategy and we are always alert to whether we can expand in particular on the technology side, to maintain the best diversification, while staying true to our plan for stable yield and low risk.

Q: How important are power price forecasts in helping you to value assets and achieve a better return?

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A: They are an important component in the valuation of assets – we typically look at several power price forecasts and take an average across them in order to reach a consensus. There are other important contributors to valuing assets too, such as energy yield. There may also be power price hedging strategies and long-term corporate offtake agreements. And, finally, the discount rate you apply to a project is also key.

The market today is seeing very robust power prices, but there is clear danger when there is too much generation on the system, such as from wind plants, and not enough demand. We have to allow for power price cannibalization in forecasts. We will see demand from new areas in future.

We have to become more flexible on the usage of power and have better ways to store it, as well as more robust electric grids. All of those things will help us better cope with more intermittent generation across Europe and beyond.

Q: Would an increase in renewables generation help to offset the current situation of very high power prices?

A: Today's high power prices are driven essentially by high gas prices and much higher than previously seen carbon prices. There has also been relatively low wind generation of late. Had there been more renewables, or greater wind levels, that would have alleviated the problem of very high power prices. A broader generation mix than gas will help, but we must also manage the intermittency of renewables. Governments need to bring in initiatives to promote grid resilience and flexible generation from things like storage and hydrogen. There also needs to be demand-side management on the usage side. Ultimately, there will need to be CCS [carbon capture and storage] too for further stability.

Q: What can governments do to spur project build of newer technologies like hydrogen and batteries that can bring more flexibility to the system?

A: Governments need to think more about how to make the revenue line for investors more robust, because that will enable capital to come into the sector. This is largely what was done to support renewables in the early days, and needs to be done too for hydrogen.

CfDs [Contracts for Difference] could be one way to do that, but currently, a large-scale offtake market doesn't exist in hydrogen, so it is about how we can mobilize the capital into the sector. We can either make more polluting industries more expensive or directly stimulate the offtake market itself.

Q: You have many investments in wind and solar across Europe, but only a little battery storage. Would you like to expand in that area?

A: Yes. As ever, it is a question of getting the right economics – we need to see stability in the revenue line over the long term. Battery storage is still being established in terms of its revenue lines – there is a lot of volatility in power prices now, but that won't always be there, so you really have to inspect the revenue line carefully.

Q: Geographically, you have an eye to acquiring projects in Spain, Scandinavia and northern Europe – why is that?

A: We like geographical diversity and think Europe is a fundamentally stable place to invest. By focusing on the U.K. and Europe, we can get economies of scale because the supply chain is quite similar.

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