Q&A: Solar market should tighten in 2017

12 Dec 16, 19:59 - Electricity, Renewables, Emissions, Corporate, Investment and Financing, Politics

Washington, 12 December (Argus) — Conor McKenna is a managing director with CohnReznick Capital Markets Securities, an investment bank that specializes in renewable energy projects. In this Q&A, edited for length and clarity, McKenna describes his outlook for tighter solar markets given near-term economic and policy conditions.

Argus: From your company's perspective, what are the most attractive states for renewable investment right now and why?

McKenna: The most attractive states are going to be those that have community solar, or qualified facility (QF) open access. This is primarily because, in the QF markets, they are open and they potentially allow you to get volume done. In solar, there are not as many power purchase agreements (PPAs). They are coming on line for 2017 and potentially 2018.

The community solar aggregation model can allow for a larger opportunity with commercial and industrial projects, but from a utility-scale perspective. That can balance both, and we see it to be a growing market. The QF has consistently been strong in places like North Carolina, and we are seeing more activity in Washington and Oregon. They have growing markets there that allow you to fill the gap as we currently see a dearth of PPAs for 2017.

For wind, I like the Midcontinent Independent System Operator (MISO). I think it is very interesting. I would be most worried about the Texas Panhandle in the Electric Reliability Council of Texas (ERCOT), but excepting that, I am seeing a high degree of interest, even within the Southwest Power Pool.

Argus: What is your company's approach to investment in Canada? Does the seeming divide between Canadian and US renewables policy offer challenges and new opportunities for investors that are active in both markets?

McKenna: Given that we have seen a significant build-up of power, especially recently, as well as strong investment from the larger power players within Canada, I do not know how much more we can expect for new Canadian assets. I am not hearing very much.

What I am hearing a lot more of is Canadian investors coming into the US market. They are looking for opportunities to put capital to work, and there is a greater build-out [in the US]. I would say that, in terms of power infrastructure build-out, we are ‘later innings' in Canada, and we are ‘early innings' here.

As it pertains to the Trump administration, I would say there are benefits, as well as areas of consideration. The benefits include a focus to improve infrastructure spending. That can definitely benefit the power markets, specifically renewables, as they become more cost-competitive. There could be ancillary benefits we are not currently pricing into the market that will come out of this administration. Conversely, there are concerns around what that structure is going to look like, which have given some buyers pause. Anytime you have uncertainty looking forward, it does not stop people from wanting to invest, but it does make them try and understand all of the potential risks more appropriately.

Argus: Does the incoming Trump administration mean good or bad times ahead for renewables? What about the renewables space will be most affected, and what will stay the same?

McKenna: I think my answer on that would be about the same. Net, it will be good, it is just uncertain. The market is going to have to adapt and adjust. Those who are well-positioned to understand and come up with creative solutions, and appropriate structuring to reflect the new administration, are going to be best-positioned to utilize it.

The momentum behind renewables cannot be impacted by policy as much as it has in the past, primarily because of the cost-competitiveness of the power generated at this point. If you look across most state renewable portfolio standards, you are typically blowing through them now. You are getting very strong returns. It is being driven by economics as opposed to policy.

Argus: Renewables have seen massive investment from large corporates, from Amazon and Google to Target and Wal-Mart. How does your company play in to this trend?

McKenna: We are seeing that there is more significant interest. But I think there is still a learning curve as to how corporates can best enter these markets. I believe there is still a dislocation between what the corporates are offering, and what has value and can be structured and financed.

What we are trying to do — and have done effectively, in terms of onboarding new investors — is the education process. If we can explain the soup-to-nuts on how a project is financed and built, and what is necessary to reach that point, then you can structure your offering accordingly. Utilities took a number of years to get this right. We believe corporates can be more dynamic, and through direct advice and consultation, they can be brought on board, especially in open ISOs like MISO and PJM.

Argus: Does the "open ISO" dimension make for fewer headaches when you look for new partners? What is the value in that?

McKenna: The value is that you can deliver power anywhere within the ISO. Therefore, there are fewer barriers for an independent power project to send power where a corporate may want it. That makes it a bit easier. What we have done in the past with corporates is a lot of rooftop solar, and now you can potentially have utility-scale in a given area, and you are then able to send that power to multiple places. You have the same concept with community solar in Minnesota, as well as virtual net-metering and community solar in Massachusetts.

Argus: What is the general outlook for next year?

McKenna: I think there is going to be a lot of value in 2017 specifically. You are going to be dealing with a lot of repackaged assets, because there will not be as much utility-scale on the solar side. There just is not going to be a lot of new stuff getting built, outside of community solar and QF. And even QF is going to be hard, because if you are overbuilding in a given jurisdiction, the utilities are going to do whatever they can to slow down the interconnection process. They are focused on trying to minimize grid disruption for multiple smaller power producers.

It is going to be a tighter market in 2017.

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