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Green Investing 2010

Policy Mechanisms to Bridge the Financing Gap





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Introduction

Max von Bismarck

Director and Head of Investors Industries
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The World Economic Forum is proud to release “Green Investing 2010: Policy Mechanisms to Bridge the Financing Gap” as part of our Green Investing project. The Green Investing project, which was mandated by the Forum’s Investor community at the World Economic Forum Annual Meeting in Davos-Klosters in January 2008, aims to explore ways in which the world’s leading investors can most effectively engage in the global effort to address climate change.

This builds on our first report, “Green Investing: Towards a Clean Energy Infrastructure”¹. That publication, released in January 2009, highlighted viable business opportunities in the energy sector that could have high abatement potential, while enabling investors to sustain their long-term corporate assets and shareholder value. It also pointed out that although investment in clean energy reached US\$ 150 billion in each of 2007 and 2008, it would need to reach US\$ 500 billion per year by 2020² if we are to see peak CO₂ emissions by then, and we are not on track.

According to the Copenhagen Accord, endorsed by major economies at the COP meeting in December 2009, US\$ 100 billion has been pledged annually by 2020 to help developing countries fight climate change in a bid to limit the rise in global temperatures to two degrees Celsius. The Quick Start funds pledged in Copenhagen which are to flow more quickly amount to only US\$ 10 billion per year for three years.

However, the pledged US\$ 100 billion is not sufficient, given that estimates in our first report suggest that between now and 2030 an average of US\$ 250 billion per annum will need to be invested in the developing world. In addition, much work still needs to be done in order to set up the mechanisms which will unlock the US\$ 100 billion investment flow.

This report provides an update on the status of investment in clean energy and how the sector has survived the financial crisis. It also provides a critical overview of the various public and private sector financing mechanisms at the national, state and local

Anuradha Gurung

Associate Director, Investors Industries
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level that could help unleash further necessary investment.

The Green Investing project is conducted in conjunction with the Forum’s broader Task Force on Low-Carbon Prosperity. The task force brings together business leaders, government representatives and sector experts to help catalyse a practical, focused public-private dialogue on climate change that complements the United Nations negotiation process. The outcome of the Copenhagen meeting in December 2009 will have a meaningful impact on international climate policy and on the role of the United Nations Framework Convention on Climate Change (UNFCCC). The Copenhagen meeting may not have reached an agreement on a global mechanism for price emissions, but it did create new pressure for effective, nationally-focused “bottom-up” initiatives.

Building on the recommendations of the Task Force on Low-Carbon Prosperity³, which were delivered to Prime Minister Gordon Brown and other world leaders during UN Climate Week in September 2009, the focus of the Forum’s climate initiative for 2010 is to help a network of investors, business leaders and expert organizations progress a number of public-private initiatives, including:

- Intra-industry cooperation on energy efficiency
- Smart grid demonstration projects
- Carbon capture and sequestration demonstration projects
- Building private sector readiness for Reducing Emissions from Deforestation and Forest Degradation (REDD+)
- International financial reporting standards for corporate climate disclosure

The Forum is also planning to set up an international initiative to help finance officials from major economies work closely with private investors to develop a series of regional, large-scale, low-carbon infrastructure financing arrangements. This work will be designed to develop practical mechanisms to support the implementation of the Copenhagen Accord’s commitment on finance for developing countries, as officials look to develop the new

¹To download the report go to www.weforum.org/pdf/climate/Green.pdf

²In last year’s report we said an average annual investment of US\$ 515bn is required in clean energy until 2030. Another way of looking at this is that US\$ 500bn of annual investment is required by 2020.

³To download the recommendations go to www.weforum.org/climate

institutional arrangements for climate finance which, under the terms of the Accord, must be set out in detail during 2010.

We trust that this report will serve as useful input for the process outlined above and hope that it will contribute towards closing the financing gap between the amounts pledged in Copenhagen and the amounts that will be needed to avoid severe impact of climate change.

Guidance for the Green Investing project was provided by an actively involved Committee of Experts which included:

- **Morgan Bazilian**, Special Advisor on Energy and Climate Change to the Director-General, United Nations Industrial Development Organization
- **Marcel Brenninkmeijer**, Founding Chairman, Good Energies, Switzerland
- **Wes Edens**, Chairman and Chief Executive Officer, Fortress Investment, USA
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On behalf of the World Economic Forum, we would like to express our gratitude to the Committee of Experts for their intellectual stewardship. Also thanks to Jon Quick at VantagePoint Venture Partners and Brindusa Fidanza at the World Economic Forum who provided helpful comments.

In addition, we wish to thank New Energy Finance, in particular Michael Liebreich, Chris Greenwood, Alice Hohler and Lindsay Wilson for their support in the creation of this report.

Last but not least, we are grateful to the many individuals who responded to our invitation to participate in workshops and interviews and who gave so generously of their time, energy and insights.



1. Executive Summary

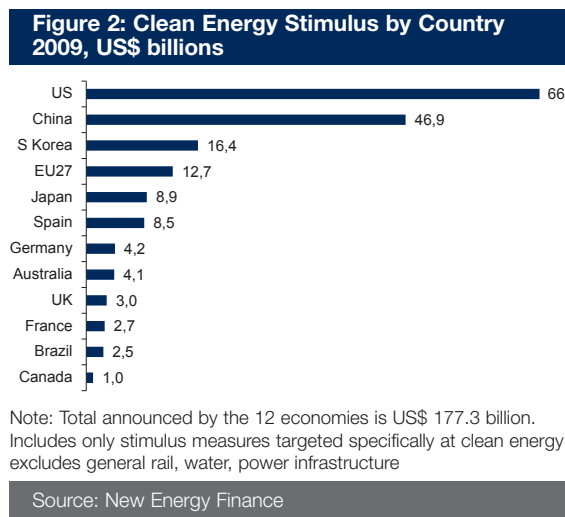
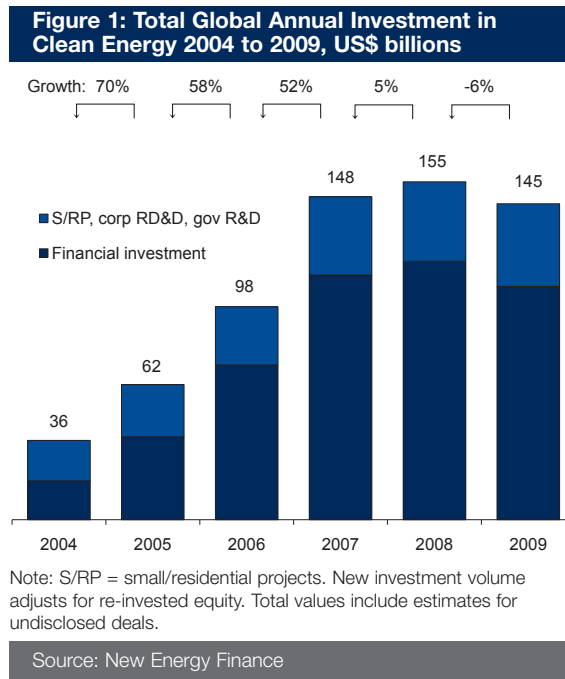
In this report, we provide an update on the status of investment volumes in clean energy and an overview of the different technologies that will contribute significantly to a future low-carbon energy infrastructure, as well as the key enablers that are required in order to allow those technologies to get to scale. We also highlight developments in the carbon markets and global negotiations (in Copenhagen and beyond) which affect clean energy and greenhouse gas emissions as a whole. Finally, we provide an analytical framework to evaluate 35 different types of policy mechanisms designed to unleash private capital to facilitate the shift to a low-carbon economy.

When we published the first Green Investing report, Green Investing: “Towards a Low-Carbon Energy Infrastructure”, the world was in the midst of the credit crisis. Our main concern was that climate change would slip down policy-makers’ agendas as they grappled with the immediate threat to the world’s financial system. As we put it at the time:

“At the very time when commentators are branding green investing as a luxury the world cannot afford, enormous investment in the world’s energy infrastructure is required in order to address the twin threats of energy insecurity and climate change. Waiting for economic recovery, rather than taking decisive action now, will make the future challenge far greater. The investment demand is substantial. Despite the recent turmoil, the world’s financial markets are up to the financing challenge, but they will need continued action from the world’s policy-makers and leading corporations.”

A year later, and the world is a very different place. On the macroeconomic stage, the concern is no longer about the collapse of our financial system, but about a protracted recession and the risk of a slow recovery. In clean energy, after stalling in the first quarter of 2009, investment activity rebounded, and in fact total investment activity will finish the year at US\$ 145 billion, down only 6.5% on the total for 2008 (see Figure 1).

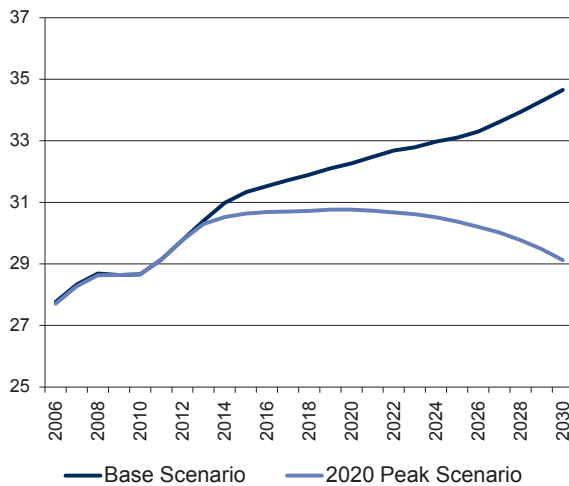
For much of the year it looked as though investment would be down by a much greater amount. In part, its healthy recovery was supported by the arrival of the first tranches of stimulus funding targeted at the sector around the world. HSBC estimated that governments allocated more than US\$ 430 billion in fiscal stimulus globally to “climate change themes”. However, this total includes rail, water and electricity infrastructure that is not specifically dedicated to clean energy. Once these are stripped out, we estimate a total of US\$ 177 billion of stimulus funding has been allocated to renewable energy,



energy efficiency, smart grid, advanced transportation and other core clean energy technologies (see Figure 2).

Of the US\$ 177 billion, only around US\$ 25 billion actually reached the front line in terms of clean energy technology providers or projects during 2009. We estimate the flow of stimulus spending will strengthen to around US\$ 60 billion during 2010, which will almost certainly drive overall investment in clean energy into record territory, perhaps reaching as much as US\$ 200 billion. Stimulus funding will then remain at around US\$ 60 billion for 2011, before receding. One of most urgent questions

Figure 3: CO₂ Emissions from Energy, Base and 2020 Peak Scenarios, GTonnes



Source: New Energy Finance, GE2M

facing policy-makers in clean energy as elsewhere is how to stop the stimulus funding in due course without causing the industry to collapse.

Clean energy investment has survived the crisis and dropped only marginally to US\$ 145 billion last year. It looks set to rise to US\$ 200 billion in 2010, and to continue growing beyond that. However, this still falls far short of the investment volumes required to transform the world's energy infrastructure.

Last year we reported that if the world is to see energy-related CO₂ emissions peak by 2020 (see Figure 3) – scientists say is necessary to restrict the increase in global average temperatures to 2°C – global investment in clean energy must reach US\$ 500 billion per annum by 2020. At the time New Energy Finance and others estimated that without a major new initiative to drive the shift to clean energy, the figure would likely only reach US\$ 350 billion per annum. Nothing that has happened in the intervening 12 months has changed those estimates significantly.

The International Energy Agency World Energy Outlook 2009 (WEO 2009) contains a “450 Scenario”, describing one way of meeting the world's energy needs while restricting emissions to a level consistent with a 2°C temperature increase. In it, renewable energy (including large hydro) grows by a total of just under 110% between now and 2030 to meet 22% of primary energy and nearly 37% of electricity needs worldwide. The IEA estimates that the 450 Scenario would require the investment between now and 2030 of US\$ 38 trillion, equivalent to 2.0% of global gross domestic product; this is US\$ 10.5

trillion more than required under its business-as-usual “Reference Scenario”.

Regardless of which model or source is used, there is a gap between the funding flowing into clean energy and what is needed to bring emissions under control. And it is sobering to note what the IEA itself says about continuing with business as usual:

“The Reference Scenario corresponds to a long-term concentration of 1000ppm CO₂ equivalent. The consequences of the world following the 1000 ppm trajectory implied by following the Reference Scenario to 2030 and beyond, would, based on central estimates, result in a global mean temperature rise of around 6°C. At this level, studies indicate that the environmental impacts would be severe.”

While the financial crisis and resulting recession have depressed investment activity, the past year has at least brought very good news on the cost front. In previous years, soaring demand for equipment from project developers meant that manufacturers were able to maintain high margins throughout the technology supply chain. Cost reductions were not passed on to clients: turbine prices were on an upward trend, and solar module costs did not drop between 2005 and 2008, despite the steep experience curve along the sector's whole value chain.

All of that changed in 2009. The levelized cost of renewable energy – i.e. the cost per unit before taking into account any subsidies or support mechanisms – fell by an average of 10% across most sectors, including the most mature, onshore wind. In the solar sector, the fall was far more dramatic, with the price of photovoltaic modules coming down by 50% in the course of the year. This is good news for the sector, although it comes at a time when the cost of fossil-based fuel has also been dropping. The difference is that as the economy and financial markets recover, oil and gas costs will bounce back. Clean energy costs, however, will fall further, as debt spreads for projects return to long-term trend levels.

In last year's report we took an in-depth look at eight renewable energy technologies which will contribute substantially to the clean energy infrastructure of the future. This year we have added two new sectors which have also shown great promise. Of our ten chosen sectors, eight are power-generating technologies, the other two produce liquid biofuels. Between them they are expected to absorb cumulative investment of US\$ 7.5 trillion between now and 2030 (see Figure 4). The ten technologies are as follows:

- 1: Onshore wind
- 2: Offshore wind
- 3: Solar photovoltaic power
- 4: Solar thermal electricity generation
- 5: Biomass
- 6: Municipal solid waste-to-energy
- 7: Geothermal power
- 8: Small-scale hydro
- 9: Sugar-based first-generation biofuel
- 10: Cellulosic, algal and other second-generation biofuels

These may be the frontrunners but they are by no means the only possible contributors to a cleaner energy future: many other emerging technologies have potential in the longer term. Nuclear power will be a major part of the future energy system, but it is beyond the remit of this report.

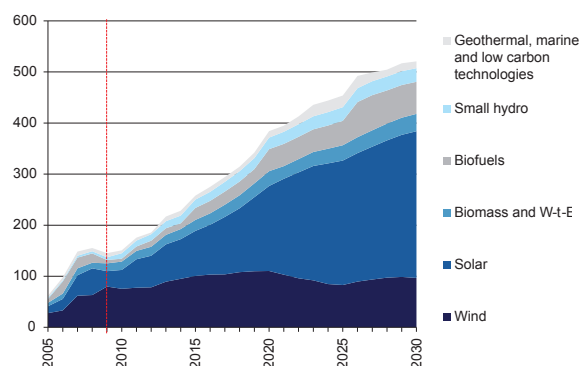
Last year we also identified a number of key enablers, where investment is essential if the energy system is to be able to absorb and use all of the renewable energy it can produce, and still meet the world's energy needs. These key enablers are energy efficiency, smart grid, power storage and carbon capture and sequestration. This year we have added advanced transportation as a key enabler, and upgraded energy efficiency to its own section.

Almost all models of future energy supply demonstrate that energy efficiency must be responsible for half or more of all reductions in CO₂ emissions between now and 2030. A lot of work has been done in the past few years by McKinsey and others on the opportunity to improve energy efficiency at very low – or even negative cost. Yet the paradox remains: persuading energy users to avail themselves of all these opportunities to save money continues to prove extremely difficult. We look here at the reasons why this is so, and what can be done about it.

The COP 15 meeting in Copenhagen could probably never have lived up to the world's expectations. As things turned out, it was neither the success that some may claim, nor was it the failure depicted by its detractors.

The Copenhagen Accord, "noted" by the Plenary on the final day of the 15th Conference of the meeting enshrines the continuation of the Kyoto Protocol and contains a long-awaited commitment to mobilise resources to control deforestation. It recognises the need to limit temperature increases to 2°C, and contains a promise to look at the science behind a 1.5°C limit by 2015. On the financing front, developed countries committed themselves to "a goal of mobilizing jointly US\$ 100 billion a year by 2020 to address the needs of developing countries", but left the mechanics to be agreed later.

Figure 4: Expected Clean Energy Investment per annum 2007 to 2030, US\$ billions



Source: New Energy Finance

The only concrete financial commitment that was forthcoming at Copenhagen was a pledge by developed countries to provide developing countries with US\$ 10 billion per year for three years in the form of "Quick Start" funds, to be shared between clean energy, REDD (Reducing Emissions from Deforestation and Forest-Degradation) and adaptation initiatives. Even if leveraged five-to-one with private funding, the scale of the pledge is an order of magnitude less than required. The IEA estimates that subsidies for fossil fuels in the largest 20 non-OECD economies alone amount to US\$ 310 billion per annum.

The world's carbon markets spent 2009 somewhat in limbo, waiting for the outcome of Copenhagen and for progress on domestic cap-and-trade in the US and Australia. They were disappointed on all three fronts. Nevertheless, the existing markets persevered, with around US\$ 120 billion of trading activity in 2009, and the US's Regional Greenhouse Gas Initiative provided the success story: it started operation and in its first year raised over US\$ 400m from the auctioning of credits to be invested in renewable energy projects in the North-East and mid-Atlantic states.

Attention on the international climate scene now switches to the task of trying to build a legally binding agreement around the Copenhagen Accord. Negotiations will resume during 2010, first in Bonn in June, and then in Mexico City at COP 16 in December.

Meanwhile, Copenhagen did not deliver a binding global deal and hence will have the inevitable effect of shifting the focus of policy-makers to the national and local level. Over the past four years, there have been no fewer than 696 pieces of legislation in favour of clean energy – renewable energy and energy efficiency – around the

world, many in anticipation of a global deal. Over the coming four years, we will no doubt see the trend continue.

Clean energy is a story of multiple technologies, at different stages of maturity, requiring different policy instruments. Supporting them can be achieved in multiple ways: by modifying the rules of the energy markets, by promoting equity or debt investment, by means of tax rules or by creating carbon markets. The choice of mechanism must depend on local political and economic conditions.

In the final chapter of this report we look at 35 different policy mechanisms that either have been used or are under discussion to promote the world's shift to a low-carbon energy system. We map the mechanisms against the sectors and situations in which they are most likely to be productively used. We also provide a rating, indicating how well we think they are likely to perform on three key questions: whether they scale; whether they are economically efficient; and whether they can catalyse private investment over and above their cost to the public purse.

We do not expect our evaluation of the policy mechanisms to be the final word on how to maintain and accelerate the world's progress towards a clean energy infrastructure. However, we hope it provides a useful framework and fuels a vital debate.

Last year's inaugural Green Investing report was subtitled "Towards a Clean Energy Infrastructure". Looking back a year later, the good news is that the world has continued to make progress towards a clean energy infrastructure in the midst of a period of unprecedented financial and economic turmoil. The bad news is that progress may not been fast enough, and is not accelerating at the rate required to address the critical issue of climate change. While, the world's investors may be ready to invest in clean energy companies and projects, they still have questions over the policy environment in which they operate.

2. Clean Energy Investment in Turbulent Times

For much of 2009 it looked as though investment activity in clean energy would be down considerably on 2008. In its World Energy Outlook 2009, published in November, the IEA was still expecting that investment in renewable energy generating capacity "could drop by as much as a fifth". In the end, however, the year finished with total clean energy investment of US\$ 145 billion, a drop of only 6.5% from US\$ 155 billion in 2008 (see Figure 5).

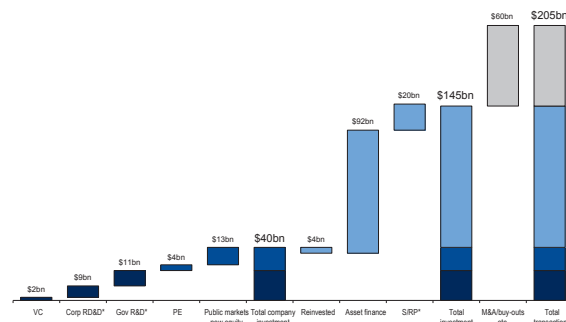
While new financial investment – i.e. excluding corporate and government research, development and deployment and small distributed projects – fell 15% in the EMEA region in 2009, and 26% in the Americas, it increased in Asia-Oceania by nearly 25%, mainly driven by the wind sector. As a result, in 2009, for the first time, total new financial investment in clean energy in Asia-Oceania (US \$37.3bn) outstripped that in the Americas (US\$ 29 billion). Europe, Middle East and Africa continued to lead the world with investment of US\$ 45.3 billion.

The period 2004 to 2008 had seen a surge in investment in clean energy across almost all technology sectors, geographies and asset classes, from a total of US\$ 33 billion to a total of US\$ 155 billion, as described in last year's Green Investing report. By the second half of 2008, however, with the financial crisis biting, the increase had stalled. The low-point came in Q1 2009, when financial investment in clean energy (i.e. excluding government and corporate R&D) fell by over 50% from its peak just over a year before.

Investment activity was, however, quick to bounce back, driven by rapid growth in China, some long-awaited large offshore wind farm financings, and a steady recovery in the financial markets. Prompt action by a number of development banks and a trickle of money starting to flow from stimulus programmes spurred private sector activity, albeit at a slower rate than in previous years.

By year end total financial investment in clean energy (i.e. excluding corporate and government RD&D) was US\$ 112 billion, with Q3 and Q4 each seeing an average of US\$ 30 billion of deals (see Figure 6). The recovery in the second half of 2009 was mainly due to financing of specific types of projects in individual countries, such as the wind mega-bases in China, offshore wind farms in the United Kingdom, and solar thermal electricity generation plants in Spain. Asset Financing accounted for US\$ 92 billion of the total investment of US\$ 145 billion in 2009, while equipment manufacturers and technology companies raised US\$ 13 billion from the public markets, and US\$ 6.6 billion from venture capital and private equity investors. Government and corporate research and development spending, plus small-scale projects accounted for the remaining investment.

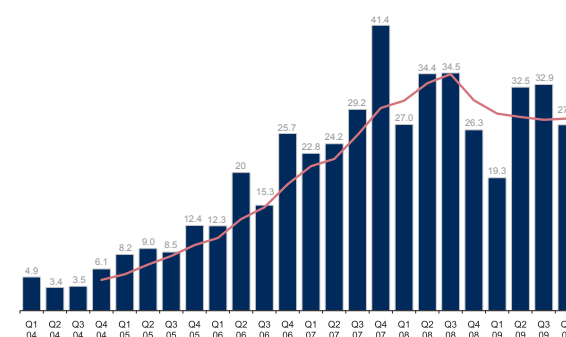
Figure 5: Global Clean Energy Investment Types & Flows 2009, US\$ billions



Note: S/RP = small/residential projects. Total values include estimates for undisclosed deals. *Data based on estimates from various industry sources.

Source: New Energy Finance

Figure 6: Total Quarterly Financial Investment in Clean Energy 2004 to 2009, US\$ billions



Note: Includes 4 quarter running average. Financial sector investment only (i.e. excludes corp RD&D, gov R&D and S/RP). Investment volume is not adjusted for re-invested equity. Total values include estimates for undisclosed deals.

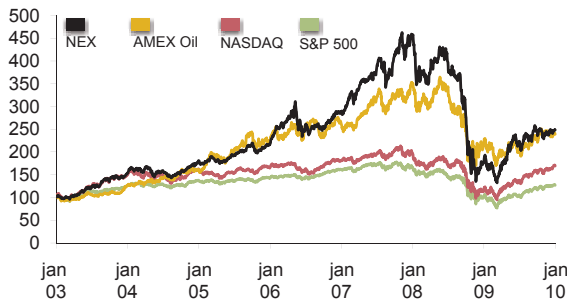
Source: New Energy Finance

Public Markets

In last year's Green Investing report, we noted that "historically, clean energy stocks have been more volatile than those of other sectors [but] their returns have been consistently higher, making them an attractive investment proposition on a risk-adjusted basis". The past 12 months turned out to be no different.

Publicly-quoted clean energy stocks initially held up well during the credit crisis. The WilderHill New Energy Global Innovation Index (ticker symbol "NEX") tracks around 80 clean energy companies listed on 25 exchanges worldwide. Indexed to 100 at the start of 2003, it had traded as high as 450 at the end of 2007 (see Figure 7). It remained in the 350 – 400 range through the first three quarters of 2008, outperforming the rest of the market.

Figure 7: Performance of NEX vs. Major Indices 2003 to 2009

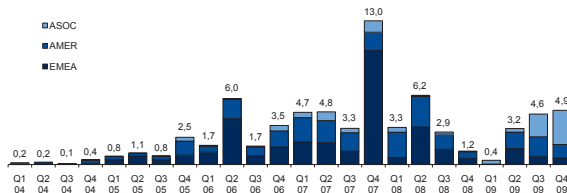


Source: New Energy Finance

Since then, however, the NEX has recovered to close 2009 at just under 250 – up 39% during the year and up 87% from its lowest point in March. The compounded annual capital appreciation of the NEX over the seven years from the beginning of 2003 to the end of 2009 was still 13.8% - a respectable return when compared with almost any major asset class.

The volume of clean energy investment on the public markets, which came to a complete standstill in Q1, finished the year down just 4% on 2008 at US\$ 13 billion (see Figure 8). Shortfalls in initial public offerings in Europe and the US were offset by fund raising in Asia, particularly China and Taiwan.

Figure 8: Quarterly Public Market Investment in Clean Energy by Region 2004 to 2009, US\$ billions



Note: Financial sector investment only (i.e. excludes corporate RD&D, government R&D and S/RP). Investment volume is not adjusted for re-invested equity. Total values include estimates for undisclosed deals.

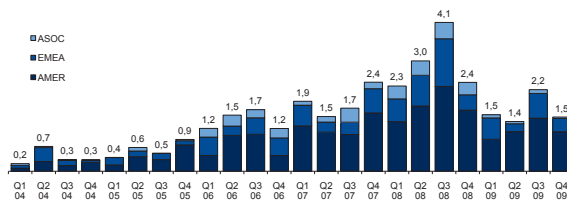
Source: New Energy Finance

Venture Capital and Private Equity

2009 saw a significant drop in the volume of venture capital and private equity investment in clean energy. Investment had soared between 2004 and 2007, with no fewer than 1,573 funds targeting technology investments in the sector by the end of that period.

Initially, as the credit crisis broke, investment volumes held up well. With the IPO route cut-off due to the market downturn, some late stage technology companies instead turned to private equity funds. However, by Q1 2009, investment volumes had dropped and although they recovered in H2 2009, they did not return to the levels seen during 2007 (see Figure 9).

Figure 9: Quarterly Venture Capital and Private Investment in Clean Energy by Region 2004 to 2009, US\$ billions



Note: Financial sector investment only (i.e. excludes corporate RD&D, government R&D and S/RP). Investment volume is not adjusted for re-invested equity. Total values include estimates for undisclosed deals.

Source: New Energy Finance

Consequently, overall venture capital and private equity investment in clean energy during 2009 was US\$ 6.6 billion, down 44% on 2008, mainly due to lower financing of solar and biofuels companies especially in the US. Encouragingly investment in efficiency technologies held up almost unchanged.

On a positive note, the last quarter of the year saw a number of venture capital and private equity managers close new funds ready for investment in 2010.

When investment bank Lehman Brothers collapsed, however, all this changed. The NEX finished 2008 at 178, and by March 2009 had collapsed to 132. That marked a 70% fall from its peak and was lower than its value throughout 2005, the year of Hurricane Katrina, the Inconvenient Truth and the ratification of the Kyoto Protocol.

In terms of returns to venture capital investors, the 12 months to June 2009 was a different story from the 12 months to June 2008. Back then, according to the annual International Clean Energy Returns Analysis study (ICTRA 2009), venture investors were boasting average internal rates of return from their investments in clean technology portfolio companies (before accounting for management and transaction fees, carry, etc) of 68%. Even adjusting for the impact of a small number of very successful investments, which yielded exits in the hundreds of millions and rates of return of more than 50%, the average clean technology venture investment over the period 2000 to mid-2008 had yielded a healthy 14.5% (see Figure 10).

According to ICTRA 2009, the year from mid-2008 to mid-2009 saw the holdings of venture investors in clean technologies in Europe and North America collapse in value by 81.4%. Much of this drop, however, arose from holdings in a small number of post-IPO stocks, mainly in the solar sector. The value of stock in private companies held by venture capitalists declined by only 15.3%, compared to a decline in both the NEX and the NASDAQ over the same period of 43%.

Asset Finance

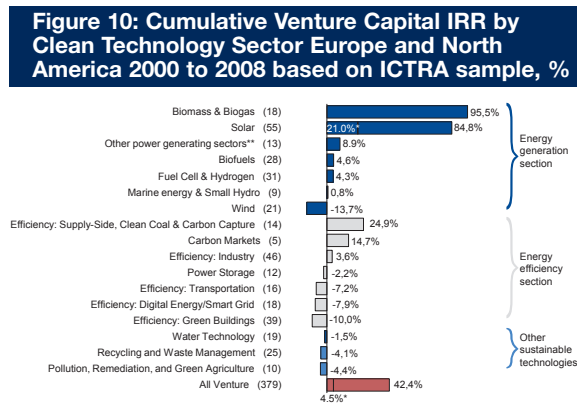
Asset financing – the type of funding required to build wind-farms, solar projects, biofuels plants and the like – was hit particularly hard by the financial crisis. Not only did lower energy prices squeeze margins, but capital became scarcer and more expensive around the world. Asset investment dropped from US\$ 21 billion in Q1 2008 to just US\$ 17 billion a year later, before recovering to an average of US\$ 24 billion in each of the final two quarters of the year (see Figure 11).

In Europe, despite central bank rates falling dramatically since August 2008, actual borrowing costs rose, as several lenders left the infrastructure finance business and the remaining banks demanded higher spreads. As a result, the all-in cost of debt remains over 100 basis points higher for clean energy projects now than it was during 2005 to 2007, despite historically low interest rates.

Take the example of a typical medium-sized wind project (see Figure 12). While the European Central Bank rate fell from 4.25% to 1.0% between summer 2008 and spring 2009, increases in term swap rates (the price charged by banks to lend over 10 or 15 years, rather than short-term) and project spreads caused the actual cost of borrowing to rise. In 2009, typical project spreads peaked at more than 300 basis points for established technologies like onshore wind and solar PV, with projects such as offshore wind and biofuels considerably more expensive. Spreads have now eased slightly, to around 280 basis points, but they remain well above their 2007 low point of around 80 basis points.

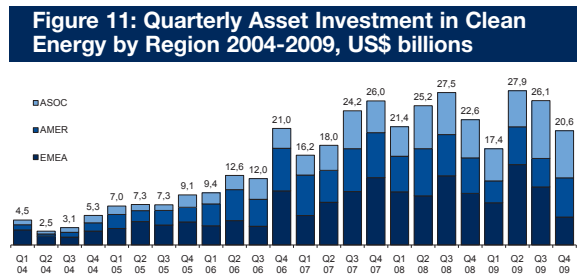
Higher-than-trend spreads is not the end of the story. Debt-to-equity ratios have also fallen since the days of easy credit, from as high as 90% debt to 70-75% on a normal project, or 50-60% for higher risk projects (if they can be financed at all). Loan tenors have also contracted, with historically typical loan agreement tenors of up to 18 years all but disappearing, and banks focusing on periods of 10 years or less in order to reduce their tenor mismatch with short-term deposits or money market finance.

All of this has significantly changed the economics of clean energy projects. Good projects can still be



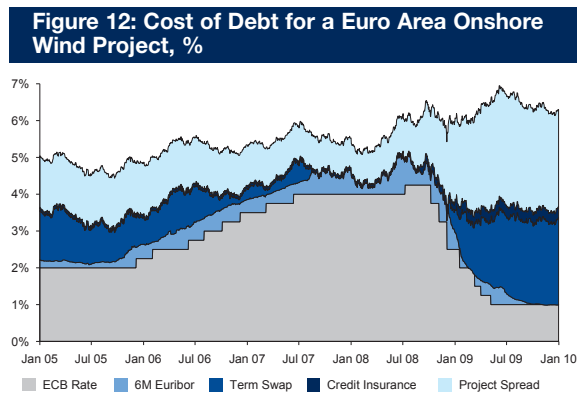
Notes: Analysis covers 379 portfolio companies across all clean technology sectors in Europe and North America. Returns are calculated at the portfolio company level, i.e. before accounting for management and transaction fees, management carry etc.. Data is self-reported on-line in confidence and anonymised. Figures are shown including and excluding (marked with an asterisk) the impact of investments which returned IRRs over 50% and exit size of over €250m. "Other" includes nuclear, waste-to-energy and geothermal.

Source: New Energy Finance / European Energy Venture Fair - International Clean Technology Returns Analysis 2009



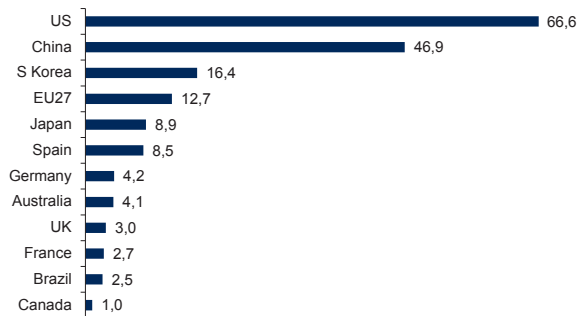
Note: Total announced by the 12 economies is US\$ 177.3 billion. Includes only stimulus measures targeted specifically at clean energy; excludes general rail, water, power infrastructure.

Source: New Energy Finance



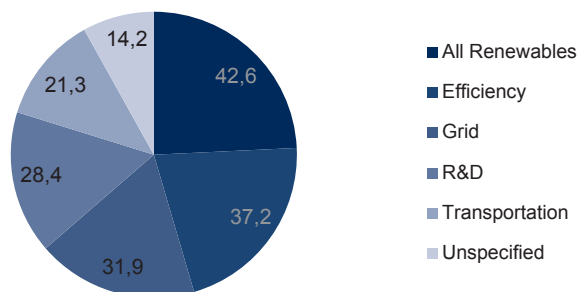
Notes: Data as of 31 December 2009

Source: New Energy Finance, Bloomberg

Figure 13: Clean Energy Stimuli by Country 2009, US\$ billions

Notes: Data as of 31 December 2009

Source: New Energy Finance

Figure 14: Clean Energy Stimuli by Sector 2009, US\$ billions

Source: New Energy Finance

financed, but marginal ones are simply waiting on the drawing board for conditions to improve. It has also meant that public sector debt providers, such as Germany's KfW and the European Investment Bank have had to play an unusually important role in financing large projects, especially offshore wind. In Brazil, the national development bank BNDES has been involved in almost all financings of new sugar-cane ethanol capacity.

In the US, asset financing for renewable energy projects was particularly hard hit by the credit crisis, due not just to the economic downturn but by the particular nature of the Production Tax Credit (PTC) scheme offered historically by the federal government.

Until the crisis, the country's US\$ 21/MWh Production Tax Credit was a key driver of new investment. However, those credits were usually not put to use directly by project developers due to their relatively small size, lack of consistent profitability and, therefore, lack of tax exposure. Instead, they typically sold their credits to third-party "tax equity providers," which were large,

consistently-profitable institutions, who could put money into clean energy projects in exchange for a guaranteed stream of tax credits – as long as they had taxable profits to shelter. This form of financing largely displaced more traditional debt funding for US wind projects, and a fairly narrow pool of tax equity investors developed, led by JP Morgan Chase and GE Capital.

In fall 2008, however, as financial institutions found themselves pushed into losses by the impact of the crisis, tax equity capital dried up. So-called "tax equity yields" (returns on investment required by providers) jumped from 6-6.5% to 9% or higher. Many otherwise attractive projects were put on hold. Seeking to address this issue, the Obama Administration in February 2009, as part of the American Recovery and Reinvestment Act (ARRA), offered developers the opportunity to take their subsidies in the form of cash grants, rather than tax credits. It took quite a few months to clarify the rules and put the infrastructure in place to distribute the funds, so asset financing for new projects ground almost completely to a halt for the first quarter of 2009, but by summer, after the new programme came on line, the market sputtered back to life.

All in all, the US finished the year down from 2008, but the ARRA grant programme clearly helped avoid total calamity.

Stimulus Spending and the Clean Energy Sector

In response to the financial crisis, almost every major government worldwide announced a fiscal stimulus package, and in almost every case a significant portion was earmarked for 'green' initiatives.

HSBC estimated that around the world, governments allocated more than US\$ 430 billion in fiscal stimulus to "climate change themes". However, this total includes rail, water and electricity infrastructure that is not specifically dedicated to clean energy. Once these are stripped out, an estimated total of US\$ 177 billion of stimulus funding has been allocated to renewable energy, energy efficiency, advanced transportation, smart grid and other core clean energy technologies (see Figure 13).

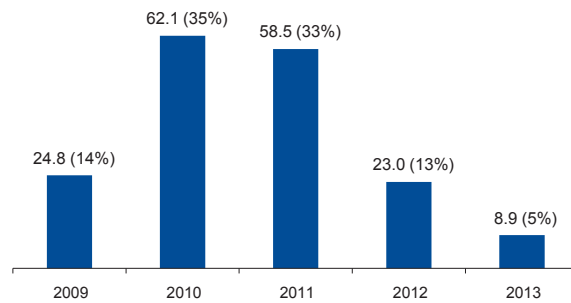
For the most part the spending is dominated by efficiency, renewable energy, electrical grid, general R&D and transportation (see Figure 14). Energy efficiency, generally in the form of grants for the improvement of public sector buildings and for weatherizing homes, is set to take the largest slice of clean energy stimulus funds with US\$ 42 billion globally. It is seen as a sector which not only can have a significant impact on emission reductions and reduce household energy expenditure, but can also be quickly ramped up and, critically, create local unskilled and semi-skilled "green jobs" – ideal characteristics for stimulus funds.

Grid improvements are also earmarked for a significant amount of stimulus spending, at US\$ 32 billion, particularly in China and the US where they are being supported by loans and grants respectively. The Chinese funding is largely earmarked for grid extension to some of the areas where excess renewable energy is currently being produced, while much of the US spending is for the deployment of smart grid technology.

A key weakness of the stimulus approach, however, is that only around US\$ 25 billion – 14% of the total allocated – actually reached clean energy technology providers or project developers during 2009 (see Figure 15). The flow of stimulus spending will strengthen to around US\$ 60 billion during 2010, which will almost certainly drive overall investment in clean energy into record territory, perhaps reaching as much as US\$ 200 billion. Stimulus funding will then remain at around US\$ 60 billion for 2011, before receding. One of most urgent questions facing policy-makers in clean energy as elsewhere is how to close the stimulus funding taps in due course without causing the industry to collapse.

There is also some concern that as the global economy emerges from recession, governments will reconsider

Figure 15: Expected Clean Energy Stimulus Spending by Year, US\$ billions (% of total)



Source: New Energy Finance

their spending plans, faced by increasing public debt and concerns over the state of their finances, and that money for green schemes may be diverted elsewhere. In particular, the new Japanese government is considering possible withdrawal from about half of its predecessor's overall stimulus commitments. Similarly, Spain has declared that funds announced for environment measures will now be divided between ecology, social care, technology development and other projects.

Clean Energy Stimulus in the US

The American Recovery and Reinvestment Act (ARRA) was signed into law by President Obama in February 2009. US\$67 billion out of a total stimulus package of US\$788 billion was set aside to promote clean energy.

Among the various countries providing stimulus support, the US has moved relatively quickly to allocate funds. At the end of the year, US\$ 25 billion (37%) of the US's overall clean energy commitment had been allocated. But New Energy Finance estimates that only about half of that has actually been deployed into the marketplace. Many of the allocated funds remain in government hands.

While the intention is for the full US\$67 billion to be disbursed by the end of 2010, it will probably be 2011 and beyond before all the funds are actually at work.

Clean Energy Stimulus in China

Early in 2009, China's National Development and Reform Commission (NDRC) unveiled a US\$ 60 billion low-carbon stimulus package. As details slowly emerged, however, the total shrank to US\$ 46.9 billion when it became clear that the majority of the funds allocated to "ecology projects" are to be spent on waste & water treatment and reforestation, with only US\$ 7.3 billion destined for energy savings.

US\$ 1.5 billion will go to developing clean vehicles and an estimated US\$ 19 billion to each of grid infrastructure and advanced technology. On the renewable generation side, the Golden Sun initiative provides central government grants of up to 50% of the installation costs of PV power plants, which must have an installed capacity of at least 300kW and minimum investment value of US\$ 14.6 million. At the same time, polysilicon and 2MW turbines were removed from the 'Encouraged Import List', providing a boost to China's domestic clean technology industry.

Overall the Chinese stimulus is likely to flow faster than European or US packages because much of the money will take the form of loans rather than grants.

Clean Energy Stimulus in Europe

Of all the European green stimuli, the Community-level one (US\$ 12.7 billion) is likely to be the fastest in reaching the sector. With the disbursement rules already in place, the relevant projects must apply for funds, which are likely to be assessed swiftly, with offshore wind developers expected to benefit first.

Funds for carbon capture and storage demonstration projects may take a little longer, but the successful applicants should receive funds in early 2010. The developers that gain cash are then required to “spend” the money by the end of 2010. Any funds not allocated to projects by the end of 2010 must be returned to the commission, providing a strong incentive for speedy implementation.

Individual member states, such as Spain (US\$ 8.5 billion), Germany (US\$ 4.2 billion), the United Kingdom (US\$ 3 billion) and France (US\$ 2.7 billion), have announced their own stimulus packages, targeting a range of clean energy technologies, including energy efficiency, wind, solar and smart grid. However, some funds have been allocated to existing programmes, and clean energy allocation does not mean the intended recipients are close to getting the cash as administrative operations must first be established to handle the funds.

Clean Energy Stimulus in Japan

In August 2009, the Democratic Party of Japan won power with a manifesto containing ambitious green policies, including an overall 25% emissions cut by 2020 over 1990 levels. This target does not include the associated cost estimates or funding.

The previous administration had announced stimulus measures totalling US\$ 8.9 billion in several supplementary budgets for 2009 and 2010. In September, however, it was reported that only 45% of the total (green and other) stimulus package had been disbursed (i.e. transferred from central administration), and that the Democratic party now hoped to hold back the untapped 55% before it was transferred to local governments.

So while up to US\$ 4 billion is on its way into the hands of Japan's energy-efficiency and solar companies, the remaining US\$ 4.9 billion of announced funding may not be disbursed until 2010. In December 2009, the government revealed a further US\$ 9 billion of expenditure on environmental measures in a fresh stimulus package, encompassing energy efficient housing renovation, home appliances, and fuel-efficient vehicles.

Clean Energy Stimulus in South Korea

In July 2009, the Korean government announced three action plans, which would lead to the country becoming one of “the greenest” in the world by 2050. The three plans – Climate Change and Energy Independence, New Growth Engine, and Quality of Life – comprise 10 policies and specific spending commitments over a five-year period totalling US\$ 43 billion.

The announcements provided much-needed clarification of the stimulus package announced at the beginning of the year. Although the government pledged to spend roughly 2% of national GDP on the overall programme, calculations suggest that less than half of the declared figure (approximately US\$ 16.4 billion) will arrive in some form of public spending, with the balance expected to come through private investment. To date, Korea is estimated to have spent no more than 5-12% of its announced green stimulus, although this is still a higher percentage than most other countries.

Through its support for manufacturing, the government plans to increase the Korean share of overseas clean energy markets by 8%, mainly through export of LEDs, solar cells, hybrid cars and other low-carbon technologies. Along with these announcements, the government also indicated the trial of a carbon emission trading scheme in 2011, with formal implementation targeted for the following year.

3. Copenhagen, Carbon Markets and Climate Policy

The 15th Conference of the Parties to the UN Framework Convention on Climate Change (COP 15), held in Copenhagen, Denmark, in December 2009 involved a complex economic negotiation requiring unanimity between 190 countries – with positions as diverse as Tuvalu and China, the US and Cuba .

As things turned out, the “Copenhagen Accord” put to the Plenary on the final day of the conference was not adopted by all parties, but simply “noted”. Probably the most significant aspect of the Accord is that it enshrines the continuation of the Kyoto Protocol, at the demand of China, India and the rest of the G77 group of developing world countries, as it gives them comfort that “common and differentiated” responsibilities will be maintained. It also recognizes the requirement to limit any global temperature increase to 2°C, although without a clear mechanism to ensure that developed country targets will provide comparable action, and contains a promise to look at the science behind a 1.5°C limit by 2015. The Accord also contains a long-awaited commitment to mobilise resources to control deforestation.

One of the great objectives for Copenhagen was that it would resolve the uncertainty over a replacement mechanism, but this did not happen. Investment in clean energy has surged throughout the developed world, Brazil, China and some rapidly-emerging economies over the past five years, but what is clearly missing is large-scale funding for the deployment of renewable energy to address the issue of energy poverty in the developing world. The Clean Development Mechanism (CDM) provided billions of dollars of funding under the Kyoto Protocol, but by 2012, when the mechanism falls into abeyance, these flows will have all but ceased.

The financing that was forthcoming at Copenhagen was a pledge by developed countries to provide developing countries with US\$ 10 billion per annum in the form of “Quick Start” funds to bridge the period 2010 to 2012. The money has to be shared between clean energy, REDD (Reducing Emissions from Deforestation and Forest-Degradation) and adaptation initiatives. However, the scale of these funds is insufficient: even if leveraged five-to-one with private funding it is an order of magnitude less than required. By means of comparison, the four largest western oil companies (ExxonMobil, Royal Dutch Shell, BP and Chevron) had combined revenue in 2008 of US\$ 1.4 trillion and earnings of US\$ 126 billion; the IEA estimates that subsidies for fossil fuels in the

largest 20 non-OECD economies alone amount to US\$ 310 billion per annum. In addition, the Accord does state an annual goal of US\$ 100 billion for mitigation and adaptation by 2020, although it contains no concrete measures to get there: these are left for subsequent negotiating rounds in Bonn or Mexico in 2010, or beyond.

Copenhagen was able to elicit concessions from half a dozen heads of state of major developing countries that they will take measurable, verifiable and reported action to control their emissions growth. This is progress in and of itself, but it also increases the chance of a climate bill in the US passing the Senate in the coming year. In the case of China, Premier Wen Jiabao committed China to curbing its emissions. This is very much in line with business-as-usual plans for China’s economic development.

On the downside, Copenhagen did not deliver on all the terms of the Bali Action Plan laid out in 2007: it did not reach a global agreement on quantified emission reduction targets to clarify the terms of the post-2012 carbon market or set a new deadline for a post 2012 agreement.

Attention will now switch to the task of trying to build a legally binding agreement around the uncertain architecture of the Copenhagen Accord. Countries have been asked to confirm their emission reduction targets by 31 January 2010.

The negotiations move on to Bonn in June 2010 and Mexico for COP 16 in December with significant issues between the major players still to be resolved.

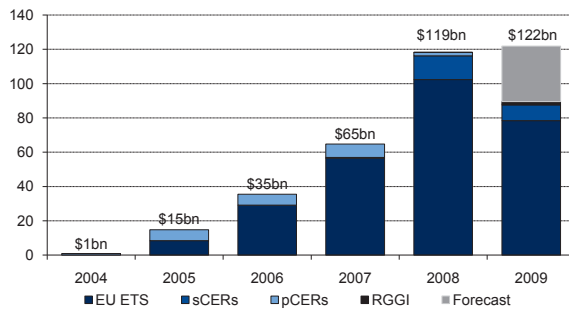
Carbon Market Update

The world’s carbon markets spent 2009 somewhat in limbo, waiting for the outcome of Copenhagen and for progress on domestic cap-and-trade in the US and Australia. The carbon trading community was disappointed on all three fronts. The existing markets – the EU-ETS in Europe, the Kyoto market for CDM and JI credits⁴ and various voluntary markets – all survived, and the start-up of the US’s Regional Greenhouse Gas Initiative provided the year’s real success story.

The total worldwide volume of carbon credit trading in 2009 is expected to be around US\$ 120 billion, according to New Energy Finance, up only marginally over 2008 after 83% growth between 2007 and 2008

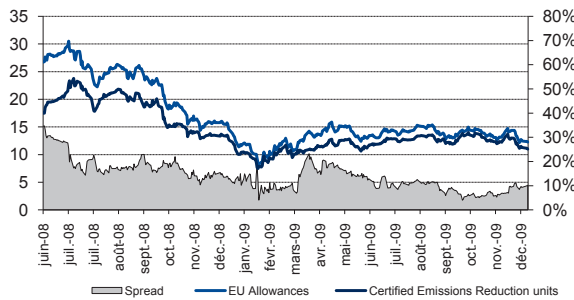
⁴ Credits resulting from projects in the developing world and economies in transition which reduce emissions relative to business-as-usual.

Figure 16: Global Carbon Credit Trading Volume 2004 to 2009, US\$ billions



Source: Carbon Market Exchanges, LEBA, New Energy Finance.

Figure 17: EU-ETS Price History April 2008 to December 2009, € per tonne CO₂e



Source: European Climate Exchange

(see Figure 16). Although a significantly greater volume of transactions is expected to be processed, lower carbon prices during 2009 have acted to restrict the growth by value (see Figure 17).

EU-ETS

The EU-ETS, which is now in its second phase (2008-2012), covers around 45% of Europe's total greenhouse gas emissions. It remains the most liquid of the world's existing carbon markets, accounting for 71% of emissions traded by volume, and 83% by value.

During 2009, the average settlement price of European Union Emissions Allowances continued its downward trend, closing the year at around 14 euros (US\$ 21) per tonne. The ferocity of the recession in the European manufacturing industry has resulted in many companies having excess credits for sale, while utilities facing lower electricity demand have not had to buy as many credits as expected.

Despite the current oversupply of credits, New Energy Finance expects prices to rise above US\$ 20 per tonne

by 2015 as the scheme moves into its third phase. As the EU-ETS heads towards 2020 prices are likely to continue to rise due to the tightening of the cap in line with Europe's commitment to achieve a cut in emissions of 20% – and perhaps 30% depending on other countries' commitments.

Kyoto Market

The Kyoto market allows governments in the developed world to buy credits from emissions-reducing projects to use towards their reduction commitments. These are either generated in the developing world under the Clean Development Mechanism (CDM), or in "economies in transition" – i.e. former Soviet Bloc countries – under the Joint Implementation Mechanism (JI). CDM credits, known as Certified Emission Reductions (CERs), accounted for 17% by value of carbon trading under the EU-ETS in 2009.

Early on in the life of CDM, it was criticized for overpaying for reductions in the manufacture of hydrofluorocarbons, industrial gases used in refrigeration. In 2008 and 2009, however, 60% of all CDM projects, producing 37% of credits, were based on renewable energy or energy efficiency. This proportion is expected to grow to nearly 60% by 2012 as the potential for industrial gas projects has largely been exhausted.

By the end of 2012, New Energy Finance estimates that the CDM will have caused around US\$ 15 billion to flow from developed to developing countries for investment in low-carbon projects. The supply of CDM credits is currently dominated by China (59% of expected annual CERs), followed by India (11%).

Voluntary Markets

The voluntary carbon market has seen a severe decline in trading volume during 2009 as companies and individuals have cut back on discretionary spending. In 2007 and the first half of 2008 not a week went by without a major retailer or bank announcing the intention to go "carbon neutral". In 2009 almost no such announcements were made.

New Energy Finance expects the global value of this market to fall to US\$ 171-261 million in 2009, a drop of 60-75% from 2008. The market has, however, begun to recover during the second half of 2009 thanks to the passage of the American Clean Energy and Security Act; the potential arrival of cap-and-trade in the US has led some companies to start securing credits in the voluntary market which they hope eventually to be able to use to meet their compliance needs.

USA

The year 2009 saw a Federal cap-and-trade scheme edge a little closer in the US. The Waxman-Markey American Clean Energy and Security Act passed the House of Representatives in June. It pledges to cut US emissions by 17% from 2005 levels by 2020, and 83% by 2050 and it includes a cap-and-trade provision. However, the majority of the cap-and-trade permits – 85% – will be given away to the most heavily-emitting industries rather than auctioned.

This risks distorting the incentives of the scheme by allowing existing heavily-polluting industries (such as coal-fired generation) to continue to function with minimal change in costs. This could also miss the opportunity to raise significant sums for clean energy and energy efficiency projects. Free allocations also risk creating windfall profits by giving companies more allowances than they need or by allowing them to increase prices without incurring additional costs. Although Waxman-Markey was a significant development, given that the House had not previously passed legislation agreeing to emissions reductions of any sort, it may not pass the Senate in its current form.

The Senate, meanwhile, spent the second half of 2009 focused on healthcare reform. Despite this, the Kerry-Boxer Climate Bill has been working its way through committee stages, and may reach the floor early in 2010. It is similar to Waxman-Markey in many ways, for example in terms of sector coverage and point of regulation, but would set a more stringent target of a 20% reduction from 2005 levels by 2020. It also places greater emphasis on the use of domestic rather than international offsets and would give the President more control over what types of offsets would be eligible under the scheme.

At the state level, California has continued to make progress towards introducing cap-and-trade in 2012 as a way of meeting the requirements for emissions reductions under its landmark AB32 legislation.

The year's most notable landmark for emissions trading in the US, however, has been the Regional Greenhouse Gas Initiative (RGGI) - the modest cap-and-trade scheme covering ten Northeast and Mid-Atlantic states – which began its first three-year compliance period at the start of 2009. Although the scheme has been criticized for making too many allowances (which resulted in a steady decline in RGGI carbon prices throughout 2009), RGGI is important in two respects. First, it is significant that the scheme was established at all in a country that has not yet signed up to any international emission reduction targets. Second, RGGI's quarterly emission auctions have

so far generated proceeds of over US\$430 million which have been distributed back to the states to invest in energy efficiency and renewable energy.

Australia

In Australia, 2009 has been a year of intense debate on the climate change front, following the release at the end of 2008 of a government White Paper on its proposed Carbon Pollution Reduction Scheme (CPRS). The initial proposal suggested a scheme that would cover 75% of Australia's greenhouse gas emissions – making it the world's second largest cap-and-trade scheme after Europe's – with a start date as early as 2010 (although the start was soon reset to 2011). The targets up to the end of 2012 would be in line with Australia's commitments under the Kyoto Protocol, with the target for 2020 left to depend on the outcome of the Copenhagen talks – ranging between 5% and 15% on 2000 levels.

New Zealand

New Zealand is also considering cap-and-trade legislation. The design of the mechanism has been modified a number of times since its proposal in November 2008, more recently to align itself with that of Australia's proposed CPRS in the hope of future linkages between the two markets. The government's long-term target currently stands at a 10%-20% cut in GHG emissions by 2020 on 1990 levels.

Japan

Following the election of the Democratic Party of Japan (DPJ) in August, Prime Minister Yukio Hatoyama stated that Japan was to step up its efforts to tackle climate change, announcing a target of 25% reduction on 1990 by 2020, a significant acceleration relative to the 8% commitment by the previous administration. Even if the 25% target is not introduced, the change in government signals a shift in approach.



4. Ten Emerging Large-Scale Renewable Energy Sectors

In last year's Green Investing Report, we asserted that "any future low-carbon energy infrastructure will have to include a significant proportion of energy generated from renewable sources". Nothing that happened during 2009 has changed this. The impact of the recession will reduce the long-term growth in energy demand somewhat, but any analysis of how that demand can be met shows that renewable energy will play a much expanded role.

The 2009 edition of the IEA's World Energy Outlook (*WEO* 2009) contains the usual Reference Scenario, showing the future of the world's energy system under business-as-usual conditions – not taking into account any future policy measures to shift to low-carbon energy. This shows renewable energy's contribution growing by 57% in absolute terms between 2007 and 2030, and from 12.6% of primary energy to 14.2%. In terms of electricity generation, the growth of clean energy is even more pronounced: renewable power (including large-scale hydro) is expected to grow by nearly 140%, and from 18.1% of consumption in 2007 to 22.3% in 2030.

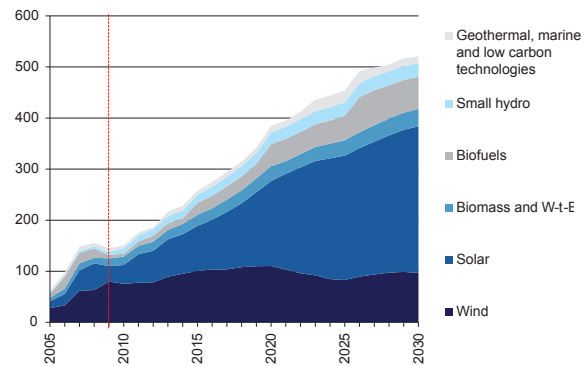
However, the IEA itself admits: "The Reference Scenario corresponds to a long-term concentration of 1000ppm CO₂ equivalent. The consequences of the world following the 1000 ppm trajectory implied by following the Reference Scenario to 2030 and beyond, would, based on central estimates, result in a global mean temperature rise of around 6°C. At this level, studies indicate that the environmental impacts would be severe."

The IEA's release of *WEO* 2009 came around the same time as the breaking of "Climategate", the release of thousands documents stolen from the server of the Climatic Research Unit of the United Kingdom's University of East Anglia.

WEO 2009 also contains a "450 Scenario", describing one way of meeting the world's energy needs while restricting emissions to a level consistent with a 2°C temperature increase. The figures are even more dramatic: renewable energy grows by just under 110% to meet 22% of primary energy demand by 2030, supplying nearly 37% of all electricity needs worldwide.

In terms of finance, the IEA estimates that the Reference Scenario would require the investment of US\$ 26 trillion between now and 2030, equivalent to 1.4% of global gross domestic product. The 450 Scenario entails additional investment of US\$ 10.5 trillion. This is, however, offset by a reduction in energy bills of US\$ 8.6 trillion globally in the period 2008-2030 alone, with more savings resulting thereafter. There are also benefits in terms of public health, as the level of pollutants under the 450 Scenario is significantly lower.

Figure 18: Clean Energy Asset Finance by sector 2007 to 2030, US\$ billions



Source: New Energy Finance, GE2M

These figures are broadly in line with scenarios from other sources, including New Energy Finance's Global Energy & Emissions Model (GE2M). This model predicts investment in clean energy growing to US\$ 384 billion by 2020, an increase of approximately 180% over 2009, but still not sufficient to achieve peak CO₂ emissions by 2020. In terms of asset finance, the model shows that the recession will reduce investment growth in the near term, but the long-term trend looks even healthier than in last year's report, due to the reductions in the cost of clean energy and new legislation supporting the sector around the world (see).

In last year's Green Investing Report we highlighted eight renewable energy technologies which we believed would prove to be major contributors to the energy supply of the future, based on their potential scale and cost competitiveness with conventional energy. This was not intended to be an exhaustive list, and this year we are pleased to add two more: small hydro and the broader biomass sector beyond municipal solid waste. Both have demonstrated good technical and economic progress in the past year.

This year's report, therefore, looks in more detail at ten promising clean energy sectors. The first eight are power generating technologies, the last two produce liquid biofuels. These leading sectors are described in Appendix 1 and their details are summarised below:

- 1 Onshore wind
- 2 Offshore wind
- 3 Solar photovoltaic power
- 4 Solar thermal electricity generation
- 5 Biomass
- 6 Municipal solid waste-to-energy
- 7 Geothermal power
- 8 Small-scale hydro
- 9 Sugar-based first-generation biofuel
- 10 Cellulosic, algal and other second-generation biofuels

Table 1. Summary Table of Emerging Large-Scale Renewable Energy Sectors (See Appendix 1 for further details)

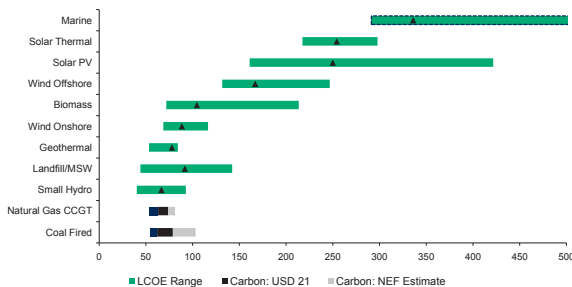
	Installed Capacity Worldwide, 2009	Potential Capacity by 2030	Market Readiness / Levelized Cost of Energy	Technology Gaps	Potential Bottlenecks	Policy Requirement
1. Onshore wind	140GW	800GW	\$68-109/MWh	<ul style="list-style-type: none"> Existing technology adequate, drive train improvements required to increase reliability and decrease costs Larger turbines Power storage (to reduce impact of intermittency) 	<ul style="list-style-type: none"> Short term: capital availability and slow speed of planning applications Long term: geographic isolation of wind resource areas 	<ul style="list-style-type: none"> Stable implementation of existing policies Modest rate support in the form of Renewable Portfolio Standard, feed-in tariff or green certificates Accelerated planning processes Incentives / regulation to require integration and remove grid bottlenecks
2. Offshore wind	2.2-2.4GW	120GW	\$109-205/MWh	<ul style="list-style-type: none"> Reliability of offshore turbines still a key concern New dedicated "marinized" technology at larger scale being rolled out over next five years 	<ul style="list-style-type: none"> Short term: capital availability, offshore wind may fall in investment priorities of utilities due to low returns Long term: innovation in and industrial supply of turbines, potentially slow due to uncertainty of demand 	<ul style="list-style-type: none"> Continued, stable support in Germany and United Kingdom, growing support in Nordic markets, Benelux, China and US Increased support from export credit agencies and government backed banks to reduce the cost and increase the availability of financing Incentives / funding for grid development Accelerated planning processes
3. Solar PV (Grid scale and Residential)	20GW	1000GW	\$170-450/MWh	<ul style="list-style-type: none"> Continued scale-up of entire crystalline silicon supply chain; process engineering to reduce costs Mass manufacture of scalable, high-efficiency thin film 	<ul style="list-style-type: none"> Capital Access to transmission grid and net metering for residential customers. Capped incentive regimes Planning permission 	<ul style="list-style-type: none"> Substantial support, long-term but declining over time and easily adjusted to falls in technology price Mandatory net metering by utilities Attractive tax treatment of R&D Public research funds
4. Solar thermal electricity generation (STEG)	616MW	80GW	\$190-250/MWh	<ul style="list-style-type: none"> Proof of concept for most up-and-coming technologies 	<ul style="list-style-type: none"> Capital, especially for unproven technologies Links to transmission grid Permitting 	<ul style="list-style-type: none"> Incentives, especially for designs not used before e.g. non-parabolic designs or new heat transfer fluids Clear direction on permitting for large projects which cannot currently get planning permission in the US Attractive tax treatment of RD&
5. Biomass incineration/gasification/anaerobic digestion	45GW	150GW	\$70-148/MWh \$90-170/MWh \$80-189/MWh	<ul style="list-style-type: none"> Proven technology available (combustion) Gasification still requires R&D AD monitoring as efficiency is highly dependent on operation 	<ul style="list-style-type: none"> Short term: capital availability Feedstock supply and prices – lack of transparent market and hedging instruments Turnkey/equipment provider 	<ul style="list-style-type: none"> Long-term and stable financial support in form of feed-in tariffs or green certificates Incentives for farmers to produce energy crops Incentives for foresters to collect residues
6. Municipal Solid Waste-to-Energy	18GW	50GW	\$38-157/MWh	<ul style="list-style-type: none"> Proven technology available (combustion) Gasification still requires development 	<ul style="list-style-type: none"> Slow permitting process (public opposition) Turnkey provider Long lead time for boilers and turbines 	<ul style="list-style-type: none"> Landfill diversion targets or ban on biodegradable waste landfill Increasing gate fees/taxes

Energy	10GW	40GW	\$55-83/MWh	10GW	40GW	60GW	190GW	80 billion litres per annum	250+ billion litres per annum	100 million litres per annum	100+ billion litres per annum	100 million litres per annum	100 million litres per annum
7. Geothermal	10GW	40GW	\$55-83/MWh	10GW	40GW	60GW	190GW	80 billion litres per annum	250+ billion litres per annum	100 million litres per annum	100+ billion litres per annum	100 million litres per annum	100 million litres per annum
	<ul style="list-style-type: none"> Enhanced Geothermal Systems (EGS) using hot dry rocks Improving resource exploration technology Smaller plug-and-play modules for low-grade resource power conversion 	<ul style="list-style-type: none"> Drilling rig availability Power plant construction delays Permitting delays 	<ul style="list-style-type: none"> Rate support in the form of Renewable Portfolio Standard, feed-in tariff or green certificates Country goals specific for geothermal Accelerated planning process 	<ul style="list-style-type: none"> Mature technology, but variability as a result of rainfall volumes (intermittent) Improvement of run-of-river turbines and technologies to be more efficient 	<ul style="list-style-type: none"> Better resources are far away from grid and from consumer centres Environmental and social issues when project is not well planned and studied Depends on rainfall volumes General opinion still doesn't differentiate small from large hydro and their benefits / disadvantages 	<ul style="list-style-type: none"> Clear and objective environmental legislation Accelerated / streamlined approval processes (as these projects are small hydro, and not large) Incentives / regulation to remove grid bottlenecks 	<ul style="list-style-type: none"> Enhanced Geothermal Systems (EGS) using hot dry rocks Improving resource exploration technology Smaller plug-and-play modules for low-grade resource power conversion 	<ul style="list-style-type: none"> Mass adoption of efficient cogeneration equipment Ability to use efficiently all cane residues Biotechnology for longer term / geographical viability: transgenic cane Adoption of flexible fuel vehicles in different countries Transfer of technology to different sugar-producing countries 	<ul style="list-style-type: none"> Import tariffs/corn ethanol subsidies Lack of hedging instruments/no liquid futures market or long term contracts Logistics to keep costs low and increase export capability: transport, storage and port facilities Price of oil below US\$ 50 for external market 	<ul style="list-style-type: none"> Definition of sustainability criteria and international standards End of import tariffs in EU, US, Japan Adoption of blend targets Brazil: legislation to allow for use of transgenic cane 	<ul style="list-style-type: none"> Selection or development of economically optimal feedstocks Lower biomass conversion costs using enzymes, bacteria, fungi, heat and pressure Development of algae-based biofuels 	<ul style="list-style-type: none"> Feedstock production to quantity and quality required Cost of feedstock collection/delivery to biorefineries Ability of existing infrastructure to cope with next generation biofuels volume 	<ul style="list-style-type: none"> Capital support from governments for demonstration-scale projects Blending subsidies to ensure demand – especially during periods of low oil prices Incentives for farmers to produce energy crops Attractive tax treatment of RD&D
8. Small hydro	60GW	190GW	\$70-120/MWh	60GW	190GW	60GW	190GW	80 billion litres per annum	250+ billion litres per annum	100 million litres per annum	100+ billion litres per annum	100 million litres per annum	100 million litres per annum
	<ul style="list-style-type: none"> Enhanced Geothermal Systems (EGS) using hot dry rocks Improving resource exploration technology Smaller plug-and-play modules for low-grade resource power conversion 	<ul style="list-style-type: none"> Drilling rig availability Power plant construction delays Permitting delays 	<ul style="list-style-type: none"> Rate support in the form of Renewable Portfolio Standard, feed-in tariff or green certificates Country goals specific for geothermal Accelerated planning process 	<ul style="list-style-type: none"> Mature technology, but variability as a result of rainfall volumes (intermittent) Improvement of run-of-river turbines and technologies to be more efficient 	<ul style="list-style-type: none"> Better resources are far away from grid and from consumer centres Environmental and social issues when project is not well planned and studied Depends on rainfall volumes General opinion still doesn't differentiate small from large hydro and their benefits / disadvantages 	<ul style="list-style-type: none"> Clear and objective environmental legislation Accelerated / streamlined approval processes (as these projects are small hydro, and not large) Incentives / regulation to remove grid bottlenecks 	<ul style="list-style-type: none"> Enhanced Geothermal Systems (EGS) using hot dry rocks Improving resource exploration technology Smaller plug-and-play modules for low-grade resource power conversion 	<ul style="list-style-type: none"> Mass adoption of efficient cogeneration equipment Ability to use efficiently all cane residues Biotechnology for longer term / geographical viability: transgenic cane Adoption of flexible fuel vehicles in different countries Transfer of technology to different sugar-producing countries 	<ul style="list-style-type: none"> Import tariffs/corn ethanol subsidies Lack of hedging instruments/no liquid futures market or long term contracts Logistics to keep costs low and increase export capability: transport, storage and port facilities Price of oil below US\$ 50 for external market 	<ul style="list-style-type: none"> Definition of sustainability criteria and international standards End of import tariffs in EU, US, Japan Adoption of blend targets Brazil: legislation to allow for use of transgenic cane 	<ul style="list-style-type: none"> Selection or development of economically optimal feedstocks Lower biomass conversion costs using enzymes, bacteria, fungi, heat and pressure Development of algae-based biofuels 	<ul style="list-style-type: none"> Feedstock production to quantity and quality required Cost of feedstock collection/delivery to biorefineries Ability of existing infrastructure to cope with next generation biofuels volume 	<ul style="list-style-type: none"> Capital support from governments for demonstration-scale projects Blending subsidies to ensure demand – especially during periods of low oil prices Incentives for farmers to produce energy crops Attractive tax treatment of RD&D
9. Sugar-based ethanol	80 billion litres per annum	250+ billion litres per annum	Competitive with oil at around US\$45 per barrel	80 billion litres per annum	250+ billion litres per annum	80 billion litres per annum	250+ billion litres per annum	80 billion litres per annum	250+ billion litres per annum	100 million litres per annum	100+ billion litres per annum	100 million litres per annum	100 million litres per annum
	<ul style="list-style-type: none"> Enhanced Geothermal Systems (EGS) using hot dry rocks Improving resource exploration technology Smaller plug-and-play modules for low-grade resource power conversion 	<ul style="list-style-type: none"> Drilling rig availability Power plant construction delays Permitting delays 	<ul style="list-style-type: none"> Rate support in the form of Renewable Portfolio Standard, feed-in tariff or green certificates Country goals specific for geothermal Accelerated planning process 	<ul style="list-style-type: none"> Mature technology, but variability as a result of rainfall volumes (intermittent) Improvement of run-of-river turbines and technologies to be more efficient 	<ul style="list-style-type: none"> Better resources are far away from grid and from consumer centres Environmental and social issues when project is not well planned and studied Depends on rainfall volumes General opinion still doesn't differentiate small from large hydro and their benefits / disadvantages 	<ul style="list-style-type: none"> Clear and objective environmental legislation Accelerated / streamlined approval processes (as these projects are small hydro, and not large) Incentives / regulation to remove grid bottlenecks 	<ul style="list-style-type: none"> Enhanced Geothermal Systems (EGS) using hot dry rocks Improving resource exploration technology Smaller plug-and-play modules for low-grade resource power conversion 	<ul style="list-style-type: none"> Mass adoption of efficient cogeneration equipment Ability to use efficiently all cane residues Biotechnology for longer term / geographical viability: transgenic cane Adoption of flexible fuel vehicles in different countries Transfer of technology to different sugar-producing countries 	<ul style="list-style-type: none"> Import tariffs/corn ethanol subsidies Lack of hedging instruments/no liquid futures market or long term contracts Logistics to keep costs low and increase export capability: transport, storage and port facilities Price of oil below US\$ 50 for external market 	<ul style="list-style-type: none"> Definition of sustainability criteria and international standards End of import tariffs in EU, US, Japan Adoption of blend targets Brazil: legislation to allow for use of transgenic cane 	<ul style="list-style-type: none"> Selection or development of economically optimal feedstocks Lower biomass conversion costs using enzymes, bacteria, fungi, heat and pressure Development of algae-based biofuels 	<ul style="list-style-type: none"> Feedstock production to quantity and quality required Cost of feedstock collection/delivery to biorefineries Ability of existing infrastructure to cope with next generation biofuels volume 	<ul style="list-style-type: none"> Capital support from governments for demonstration-scale projects Blending subsidies to ensure demand – especially during periods of low oil prices Incentives for farmers to produce energy crops Attractive tax treatment of RD&D
10. Next Generation biofuels	100 million litres per annum	100+ billion litres per annum	Competitive with oil at around US\$ 150 per barrel	100 million litres per annum	100+ billion litres per annum	100 million litres per annum	100+ billion litres per annum	100 million litres per annum	100+ billion litres per annum	100 million litres per annum	100+ billion litres per annum	100 million litres per annum	100 million litres per annum
	<ul style="list-style-type: none"> Enhanced Geothermal Systems (EGS) using hot dry rocks Improving resource exploration technology Smaller plug-and-play modules for low-grade resource power conversion 	<ul style="list-style-type: none"> Drilling rig availability Power plant construction delays Permitting delays 	<ul style="list-style-type: none"> Rate support in the form of Renewable Portfolio Standard, feed-in tariff or green certificates Country goals specific for geothermal Accelerated planning process 	<ul style="list-style-type: none"> Mature technology, but variability as a result of rainfall volumes (intermittent) Improvement of run-of-river turbines and technologies to be more efficient 	<ul style="list-style-type: none"> Better resources are far away from grid and from consumer centres Environmental and social issues when project is not well planned and studied Depends on rainfall volumes General opinion still doesn't differentiate small from large hydro and their benefits / disadvantages 	<ul style="list-style-type: none"> Clear and objective environmental legislation Accelerated / streamlined approval processes (as these projects are small hydro, and not large) Incentives / regulation to remove grid bottlenecks 	<ul style="list-style-type: none"> Enhanced Geothermal Systems (EGS) using hot dry rocks Improving resource exploration technology Smaller plug-and-play modules for low-grade resource power conversion 	<ul style="list-style-type: none"> Mass adoption of efficient cogeneration equipment Ability to use efficiently all cane residues Biotechnology for longer term / geographical viability: transgenic cane Adoption of flexible fuel vehicles in different countries Transfer of technology to different sugar-producing countries 	<ul style="list-style-type: none"> Import tariffs/corn ethanol subsidies Lack of hedging instruments/no liquid futures market or long term contracts Logistics to keep costs low and increase export capability: transport, storage and port facilities Price of oil below US\$ 50 for external market 	<ul style="list-style-type: none"> Definition of sustainability criteria and international standards End of import tariffs in EU, US, Japan Adoption of blend targets Brazil: legislation to allow for use of transgenic cane 	<ul style="list-style-type: none"> Selection or development of economically optimal feedstocks Lower biomass conversion costs using enzymes, bacteria, fungi, heat and pressure Development of algae-based biofuels 	<ul style="list-style-type: none"> Feedstock production to quantity and quality required Cost of feedstock collection/delivery to biorefineries Ability of existing infrastructure to cope with next generation biofuels volume 	<ul style="list-style-type: none"> Capital support from governments for demonstration-scale projects Blending subsidies to ensure demand – especially during periods of low oil prices Incentives for farmers to produce energy crops Attractive tax treatment of RD&D

Note: RPS = Renewable Portfolio Standard; PTC = Production Tax Credit

Source: New Energy Finance

Figure 19: Levelized Costs of Energy Q3 2009, US\$ per MWh



Note: Levelized cost of energy (LCOE) is the US\$/MWh price for an inflation-adjusted fixed-price off-take agreement that offers the project developer the minimum equity return necessary to undertake the project. For example, an LCOE of US\$100/MWh for a wind farm indicates that after factoring in cost of development time and cost, construction, turbine costs, balance of plant, short and long-term financing and operating costs, signing a power purchase agreement at US\$100/MWh would return the owner of the project exactly their 'hurdle rate'. The central scenario is based on a 10% equity IRR as a hurdle rate for all technologies, to represent the perspective of a "technology agnostic" developer. Central scenario assumes cost of back-up capacity is not borne at the project level. Eight leading power generation technologies included, plus marine for comparison purposes.

Source: New Energy Finance

concerns over costs, safety concerns, waste disposal and proliferation. It has accounted for around 16% of total electricity production worldwide since the 1980s, and is poised for a renaissance in many countries around the world. However, a full discussion of the merits, problems and possible role of nuclear power is beyond the scope of this report.

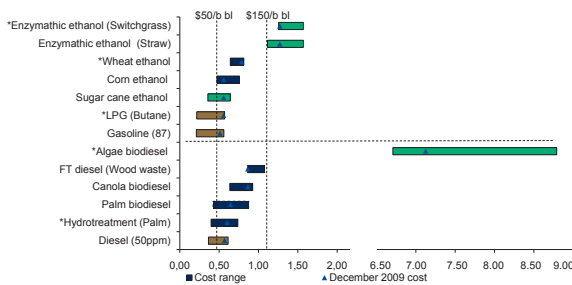
One of the most striking developments of the past 18 months has been the precipitous drop in the price of clean energy (see Figure 19 and Figure 20). Over the four previous years, the best manufacturers and technology providers had been working behind the scenes to drive down their costs. However, the soaring demand for equipment from project developers meant that these cost reductions were not passed on to clients. Turbine prices were on an upward trend, and solar module costs did not drop between 2005 and 2008, despite the steep experience curve along the sector's whole value chain.

All of that changed in 2009. In most sectors, the levelized cost of renewable energy – i.e. the cost per unit before taking into account any subsidies or support mechanisms – fell by an average of 10%. In onshore wind, turbine prices fell to their lowest levels for many years, finishing 2009 up to 20% below early 2008 levels. This was, however, somewhat offset by higher financing costs, leaving the levelized cost some 10% down for the year. In the solar sector, the fall was far more dramatic, with the price of solar photovoltaic modules coming down by 50% in the course of the year.

Offshore wind alone bucked the trend: costs continued to rise as projects moved into deeper waters, facing increasingly complex construction and capital costs, and as the rush in project financings – particularly in the United Kingdom – has brought into sharp focus the predicted bottlenecks in installation ships and high-voltage cables.

As the capital markets recover, the net cost of financing for renewable energy will drop sharply. Although bank rates are expected to rise from their historic lows as the global economy slowly emerges from recession, this will be more than offset by the reduction in risk premiums, which remain at unprecedented levels. For almost all clean energy technologies – wind, solar, geothermal, marine, hydro and energy efficiency – the bulk of costs are borne up-front, with no fuel costs during the life of a project, making them more sensitive to higher net interest rates than fossil fuels. An improvement in the capital markets can therefore be expected to have a significant impact on the competitiveness of renewable energy sources.

Figure 20: Levelized Costs of Liquid fuels Q3 2009, US\$ per barrel



Note: The cost range for each technology is based on minimum and maximum feedstock cost in the analyzed period and the minimum and maximum conversion cost for each technology. Central scenario is based on a 10% equity IRR as a hurdle rate for all technologies, to represent the perspective of a "technology agnostic" developer.

* Palm-based biofuels have not been chosen here as "key" technologies due to persistent concerns about their role in deforestation. Canola, wheat, corn and other feedstocks have been excluded due to their competition with food agriculture.

Source: New Energy Finance

These technologies may be the frontrunners but they are by no means the only possible contributors to a cleaner energy future. Many other emerging technologies have potential in the longer term.

Nuclear power will play a growing role in the future energy mix, subject to the successful resolution of

5. Energy Efficiency

In last year's Green Investing report, we listed energy efficiency as one of four Key Enablers of any shift to a low-carbon energy infrastructure. However, a number of people pointed out that this under-emphasizes the importance of energy efficiency in moving to a more sustainable energy mix. We agree, so this year we have created a new section for energy efficiency, on par with the Ten Emerging Large-Scale Renewable Energy Sectors, and replaced it in our Key Enablers section with Advanced Transportation.

Scale of the Opportunity

According to the IEA's World Energy Outlook 2009: "End-use efficiency is the largest contributor to CO₂ emissions abatement in 2030, accounting for half of total savings in the 450 (emission-limited) Scenario compared with the Reference (business-as-usual) Scenario."

The US Department of Energy estimates that eking 5% more efficiency out of the country's electrical power network would be equivalent (in terms of fuel and greenhouse emissions) to taking 53 million cars permanently off the road. A McKinsey & Co report published in July 2009 (*Unlocking Energy Efficiency in the US Economy*) shows that by using energy more efficiently, the US economy could cut annual non-transport energy consumption by about 23% by 2020. This would eliminate over US\$ 1.2 trillion in waste – well beyond the US\$ 520 billion upfront investment (not including programme costs) required for energy efficiency. The reduced energy use would also abate 1.1 gigatons of CO₂ emissions annually.

Using less energy at peak times can have a particularly significant impact. According to a recent Brattle Group study, cutting the level of peak demand in the US by 5% would eliminate the demand for around 625 infrequently-used peaking power plants, equivalent to annual savings of approximately US\$ 3 billion.

The opportunity does not lie only in the US or the rest of the developed world. In the run-up to Copenhagen, neither China nor India accepted any sort of absolute cap on their carbon emissions, but agreed to reduce emissions per unit of gross domestic product. China has pledged to reduce emissions by 40-45% per unit of GDP by 2020. In India's case the figure is 24%. In part, this will be achieved by shifting the economic mix: as countries move from agriculture to industry, CO₂ emissions per unit GDP increase. As they move to light manufacturing and services, it reduces. But there are also significant opportunities to improve energy efficiency in both China and India. Indeed McKinsey research suggests that the cost of abating a unit of energy is 35% lower in developing countries.

Perhaps the biggest opportunity to reduce energy consumption worldwide lies in the built environment. According to the US Energy Information Agency, residential and commercial buildings account for 41% of the energy and 74% of the electricity used in the US. And many energy efficiency measures are relatively low-tech, such as insulating buildings, installing double-glazing windows, improving building management or reducing the number of appliances that are (or can be) left on stand-by.

Barriers to Implementing Energy Efficiency

A lot of energy efficiency opportunities with positive net present values still exist, however, there are also significant and widespread barriers to boosting energy efficiency.

Although heavy commercial users of energy are highly responsive to price signals, many retail consumers and small businesses are not. In addition, there are asymmetries of benefit – otherwise known as agency problems – whereby investments must be made by landlords that benefit tenants, or vice-versa, and this can stymie investment in more efficient buildings. Consumers may lack access to finance. Even if the returns on investment are high, consumers may worry that they move before they can recoup their investment in double glazing or loft insulation. So the money may sit in a savings account instead, and an investment with a positive NPV will not be made.

One of the most significant barriers to improving energy efficiency is a pervasive lack of information. Retail users have no information on which appliances drive their energy usage or the potential benefits of upgrading their homes. Commercial users in multi-tenant buildings may not be separately metered. Even professional architects and engineers may not know the relatively modest costs of improving the energy-efficiency of the buildings they design.

In "Greening our Built World", Greg Katz reports on the costs and benefits of green buildings, based on a detailed investigation of 170 LEED-certified developments. He found that the average incremental cost over conventional building was a paltry 1.5%. Yet a 2007 survey of business leaders by the World Business Council for Sustainable Development found that they expected the median cost differential to be 17%. Katz's survey found that the incremental construction costs in the range of US\$ 3 to US\$ 4 resulted in net savings in water and electricity alone of US\$ 8 to US\$ 10 over the first 20 years of a building's life – and that is without including health benefits, productivity benefits, wider societal benefits or reduced capital expenditure

elsewhere in the infrastructure. He goes on to demonstrate that green community design has further economic advantages over and above green buildings alone.

Finally, the sheer time taken to replace existing building stock, typically 30 to 50 years, creates inertia in the system. Retrofitting buildings to make them energy-efficient is expensive and so has a slower payback time than building right the first time.

Policy Responses

Exploiting the opportunity to improve energy efficiency will require a range of policy interventions. These will include the following:

- **Changes in utility regulation:** At present most utility and network regulation centres on unit cost of supply. In future, regulation will need to ensure utilities have incentives to help drive improvements in end-use efficiency.
- **Appliance efficiency standards:** These have been proven effective at driving energy efficiency in a wide range of countries over a long period, particularly where consumers have been proven not to be price-sensitive.
- **Building codes:** Implementing stringent building codes for new buildings and buildings changing hands may be the single most powerful long-term driver of energy efficiency in the built environment.
- **Best available technology rules:** Governments around the world have started to ban high-power incandescent light-bulbs.
- **Availability of finance:** Where energy consumers have insufficient access to finance for energy efficiency improvements, legislation is required to enable the creation of new pools of money that allow third parties to invest on their behalf and share the resulting cost savings.
- **Information-sharing:** Often the reason energy efficiency improvements are not implemented is that consumers do not have access to information on their energy use or on ways of reducing it.
- **“Smart Grid”** (see separate section): In and of itself, smart grid technology does not save energy, but is an essential part of moving to more a rational pattern of energy use.
- **Plug-in hybrids:** electric vehicles and other advanced transportation (see separate section).

Investment Opportunities

Historically it has been hard for private investors to benefit from the drive for energy efficiency. Over the past few years, however, the trickle of specialist technology providers raising venture or private equity money has been growing strongly, covering lighting, light-responsive

windows, energy-efficient building products, HVAC equipment and control software, industrial technologies, energy-efficient electronics and controllers and other technologies. With US\$ 38 billion dedicated to energy efficiency around the world in the stimulus packages alone, the market for these technologies can only grow over the next few years.

Other ways for investors to access the push towards energy efficiency include the large number of green property developers and funds on the market. It is also possible to invest directly in energy reductions, via Energy Service Contracts, whereby a third party funds the cost of an efficiency improvement, and is paid out of the savings – Honeywell International’s Energy Performance Contracts have been used to realize more than US\$ 2 billion in annual savings by 2,000 customers worldwide – and a secondary market in these contracts could emerge as the market matures.

In June 2009, APG Asset Management (which manages the € 173 billion pension plan for Dutch civil servants) closed a US\$ 100 million fund targeting energy efficiency investments in China’s manufacturing sector. The fund will provide Chinese companies with financing to adopt energy efficient technologies and will take a share of the resulting savings. Also in China, the China Energy Conservation Investment Corporation, with nearly 180 group companies and 11,000 employees, focuses on energy conservation and environmental protection in China, providing a range of services including waste remediation, energy efficiency and clean energy investment. In 2008 the United Kingdom’s Carbon Trust announced a joint venture with CECIC to explore opportunities in China for British clean energy technology.

From Incandescent Bulbs to Compact Fluorescent to Light-Emitting Diodes

Lighting, which according to the US Department of Energy accounts for 24% of US electricity consumption, is an obvious target area for efficiency improvement. Replacing incandescent bulbs with Compact Fluorescent Light (CFL) bulbs reduces energy consumption by around 75%; Light-Emitting Diodes (LEDs), which are just coming onto the market, could reduce energy consumption even further, by up to 90% over incandescent bulbs.

At current prices for bulbs and electricity, the cost winner is the CFL (see Table 2). However, that is likely to change as the price of LED bulbs comes down. In the end the LED's 60,000-hour life, low power use and lack of mercury content will make it the winning technology.

Table 2. Lighting Technology Comparison

	Incandescent	Compact Fluorescent	LED
Power (W)	57	14	6
Light (Lumens)	765	900	336
Directionality	Diffuse	Diffuse	Directional
Start-up time (seconds)	0	~ 5	0
Pollutant	None	Mercury	None
Life (hours)	1,500	10,000	60,000
Price/bulb (US\$)	0.65	1.50	39.95
Cost (assuming 10 years at 8 h/day and electricity at 12 US\$ cents / kWh)			
Number of bulb changes	20	3	1
Electricity consumed	1664.4 kWh	408.8 kWh	175.2 kWh
Electricity cost	US\$ 199.73	US\$ 49.06	US\$ 21.02
Total cost*	US\$ 212.73	US\$ 53.55	US\$ 60.97

* Assuming no maintenance cost to change bulbs

If every US household replaced its 60W bulbs with LEDs, venture capital investor VantagePoint estimates this would result in US\$ 30 billion of annual savings for households and 200Mtoe CO₂ emissions eliminated, equivalent of taking 38 million cars off the road. This would also reduce the need for utilities to build new generation capacity or turn on expensive (and often dirty) peak capacity. However, even if the cost comes down to US\$ 15 per bulb when they become widely available, LED bulbs will be seen as relatively expensive and consumers are generally reluctant to pay upfront for benefits that accrue only over time. Rapid, mass adoption of LEDs in the retail market will require regulation – mandating their use, giving them away free, or rewarding utilities for investing in energy savings in the same way as they are rewarded for investing in generating capacity.

China is already establishing itself as the leader in LED manufacturing, representing a third of global production. China's share of the market was worth an estimated US\$ 400 million at the end of 2008, and this is expected to grow to US\$ 1.5 billion by 2012.

SOURCE: VantagePoint Venture Partners and New Energy Finance



6. Four Key Enablers

The rise of renewable energy has turned the spotlight on ways to integrate increasing amounts of energy from diverse sources, make the most of an ever-broadening array of new technologies and use energy more efficiently. In this section, we provide an overview of four key enablers whose progress (or otherwise) will foster or hinder the adoption of renewable energy and related technologies.

Although these four key enablers are discussed individually, they are interlinked with one another, as well as with renewable energy and energy efficiency: the smart grid will rely on power storage and on electric vehicles if and when vehicle-to-grid happens (where cars communicate with the grid to supply or absorb power depending on prevailing demand patterns); energy efficiency will drive the smart grid, particularly in the context of buildings and electric vehicles have a two-way relationship with power storage. Further details of each enabler are provided in Appendix 2.

Smart Grid

Discussions about the smart grid have moved from the periphery to the heart of discussions about future energy supply. The smart grid is an essential part of any future energy scenario: the world's existing electricity grids simply cannot cope with the increasing diversity of energy sources, many from variable and decentralised renewable resources, and do not allow energy supply and demand to be managed efficiently. With global energy consumption set to triple between now and 2050, intelligent power management will be vital.

Today's grid is not interactive – energy flows from generator to consumer, with no corresponding flow of information about energy prices, demand patterns and so on in either direction. This data flow is essential if we are to manage our energy consumption more efficiently, make the most of energy from distributed sources such as roof-top PV, and tap into the power storage capabilities of domestic appliances and electric cars.

There are many questions about who will build the smart grid, who will pay for it and how long it will take to build. What kind of policy mix will motivate utilities to adopt smart grid technologies and solutions while stimulating innovation, economic efficiency and competition? Trillions of dollars will have to be invested in upgrading and repairing the current transmission and distribution network, and in incorporating interactive elements such as sensors and smart meters. It looks likely that only regulation will drive this investment, but at the moment, most regulators remain in wait-and-see mode.

Government support is taking different forms. In the US, US\$ 3.4 billion of stimulus funding in the form of grants

were awarded in 2009 to 100 smart grid projects, designed to rollout a total of 18 million smart meters. According to the US Department of Energy (DoE), the total amount of private and public funds that will be invested in smart grid projects through this programme will be US\$ 8.1 billion. The DoE had already granted US\$ 7 billion to two federal-owned power administrations to build transmission that will eventually deliver renewable energy to the US's Western states.

Meanwhile the EU has stipulated that 80% of European households should have smart meters by 2020, with 100% coverage by the year 2022. Finland is spearheading smart grid roll-out, with a new law requiring utilities to install smart meters in 80% of Finnish homes by the end of 2013. Sweden completed a near-100% roll-out during 2009, and other Scandinavian countries are taking a lead in smart meter installation. The United Kingdom is aiming for smart meters to be installed in every house by 2020. According to a recent report published by the United Kingdom's Department of Energy and Climate Change (*Smarter Grids: The Opportunity*), £8.6 billion will be spent on replacing 47 million gas and electricity meters, with an expected benefit of £14.6 billion over the next 20 years.

Preliminary estimates indicate that by 2020, around 200m smart meters could be operational in Europe and the US, meaning a rosy future for meter manufacturers such as Landis+Gyr (which is providing 150,000 Finnish consumers with smart meters), Itron, Silver Spring, GE and Echelon.

Power Storage

The ability to store energy efficiently will open up a wealth of opportunities for low-carbon technologies. Advanced batteries will provide power for electric vehicles and many other mobile applications, while utility-scale storage will allow fluctuations in electricity demand to be smoothed, generation to be managed to meet varying demand, and intermittent renewable generation to be accommodated.

The most obvious form of energy storage on the demand side is batteries, commonly used to power mobile, portable and remote devices from computers to cars. Electric vehicles are a Holy Grail for battery developers, although even the likely earlier take-off of plug-in hybrids offers a very substantial market.

Finding a solution for grid-scale power storage is becoming increasingly urgent for utilities. At grid scale, power storage has two main applications: energy management, where stored energy is used to provide additional supply when demand rises; and power quality management, where short sharp bursts of energy are

used to stabilize the grid by smoothing out irregularities in supply or demand. Technology improvements and increased government support for advanced batteries, ultra-capacitors and other technologies could push the grid storage market from a projected US\$ 1.5 billion market by 2012 to US\$ 8.3 billion by 2016 according to a NanoMarkets report: *Batteries and Ultra-Capacitors for the Smart Power Grid: Market Opportunities 2009-2016*.

Developing advanced batteries is a priority for grid-scale energy management; battery technology developments currently being pursued include shortening recharging times, extending life, making portable batteries lighter and more compact and reducing cost.

On the power quality management side, flywheels and ultra-capacitors are relatively new technologies used to balance short-term grid fluctuations. Flywheels store power as kinetic energy, while ultra-capacitors store it as electrical energy. Flywheel technology has been proven at utility-scale and commercialization could halve its capital costs from US\$ 1.5 million/MW currently to US\$ 0.75 million/MW. Ultra-capacitors are a promising technology, but remain expensive and not yet proven at scale.

Advanced Transportation

Transport accounts for more than 27% of all final energy consumed (8,286 Mtoe), according to the International Energy Agency, and 23% of global CO₂ emissions. The transport sector is almost entirely reliant on oil to fuel it (94%). The scale of the problem (and therefore the opportunity) has propelled advanced transport into the limelight. If only 10% of the global fleet were to consist of electric vehicles, this market will be worth US\$ 300 billion in 2020 for the cars alone, with batteries an additional US\$ 100 billion and the lifetime mileage worth an additional US\$ 250 billion according to the US Department of Transportation's Research and Innovative Technology Administration.

There are multiple technologies aimed at improving transportation efficiency: mass transit, biofuels, artificially-synthesized fuels, improvement to the internal combustion engine and fuel cells. The dominant technologies are plug-in vehicles: both plug-in hybrids (PHEVs) and full battery electric vehicles (BEVs). The critical enabling technology for vehicle electrification has been lithium-ion batteries, giving electric cars minimum ranges of 100 miles and top speeds of at least 90mph.

Electric vehicles are a nascent industry being accelerated by government support. The Boston Consulting Group has estimated that as of November 2009 governments around the world had pledged over US\$ 15 billion to support the electric vehicles ecosystem, including direct

vehicle subsidies (e.g. US\$ 7,500 in the US, 5,000 euros in France, 60,000 rmb in China) and support for battery manufacturing and infrastructure (France has pledged 1.5 billion euros). This is all in addition to tax incentives. The political wildcard is the introduction of regulatory emission/fuel economy standards. European and Japanese governments have proposed emissions standards with punitive financial penalties that car companies are unlikely to be able to meet without sizable EV penetration. If passed, and matched by US-based legislation, this legislation will ensure meaningful EV deployments by 2020.

Electric vehicles' role in a low-carbon future goes beyond pure transport – many experts see mass penetration of electric vehicles as the key for higher levels of renewable energy generation, and the most powerful driver for a smart grid. Electric vehicles act as distributed large-scale storage devices. Current utility scale storage solutions come in 2MW increments; 50k EVs offer 1GW worth of storage, 500 times that amount. The benefits to the grid are that EVs provide load-levelling by increasing night-time electricity demand. However at present the cost of a battery cycle for Lithium-ion batteries makes vehicle-to-grid prohibitively expensive.

Widespread EV adoption faces three roadblocks that need to be addressed: infrastructure; psychological barriers/range extension; and availability and cost competitiveness of vehicles. From a total cost of ownership perspective, EVs are cheaper as the lower cost per mile more than offsets the upfront costs of the battery.

Carbon Capture & Storage (CCS)

In a world dependent on coal for its energy for the foreseeable future, technology that captures and stores the CO₂ emissions has an important role to play in the shift to a low-carbon energy future. Industrializing countries, notably China, have rich domestic coal reserves that will be used to support economic growth, especially as other energy resources elsewhere in the world diminish and fuel prices rise.

Demand for CCS could reach 160-240MtCO₂e/year by 2020, equivalent to the emissions from 26-44 coal-fired power stations or 8-12% of emission reductions required under global emission trading schemes. However, the funding so far committed worldwide – US\$ 24 billion – will be insufficient even to complete the commercial and demonstration projects in all stages of development, equivalent to an injection rate of 95MtCO₂e/yr in 2020.

Before CCS can begin to fulfil even this potential, scaled-up demonstration projects must be built - and as yet,

none have. The costs involved - US\$ 1-2.5 billion for 100-300MW plants or US\$ 57-91/tCO₂e avoided – are prohibitive in these tight economic times without any clear market incentives. The bottom line is that it is far more expensive to use CCS to deal with a tonne of CO₂ than it is to buy carbon credits on the ETS, even on the most aggressive price estimates. Funding for the first demonstration plants must therefore come directly from governments if CCS is to scale the gaping “Valley of Death” currently lying between it and commercialization.

Governments are making commitments to CCS projects. The G20 has a goal of 20 demonstration projects by 2020. The European Commission intends to facilitate construction of 10-12 demonstration projects, and the United Kingdom has said it will back four CCS demonstration plants. The EU has so far committed just over 8 billion euros (US\$ 11.9 billion) to CCS, funded by EU-ETS’ New Entrants Reserve, EU member states and the European Economic Recovery Plan. The US, Canada and Australia have also outlined plans to build large-scale projects. In June 2009, the US resuscitated the previously abandoned FutureGen project to build a 275MW CCS-equipped Integrated Gasification Combined Cycle (IGCC) plant. Under their clean energy stimulus plans, the US has pledged US\$ 4 billion, Canada US\$ 2.6 billion and Australia US\$ 6.4 billion to CCS.

However, these commitments only close a small amount of the funding gap, estimated to be US\$ 80 billion between now and 2020. This early-stage gap will probably be plugged by further direct government funding either in the form of grants or incentives combined with investment from those in the private sector who stand to benefit most from CCS (or lose most by not dealing with their CO₂ emissions), such as companies in the oil & gas and utility sectors, which have already emerged as leaders in CCS.

Once the first demonstration projects have been built, other forms of financing will be needed. Later projects could be funded via levies on electricity or fossil fuel production (effectively a direct tax on those producing the CO₂ that CCS is designed to mitigate), and ultimately CO₂ financing where market incentives (carbon credits) would attract private sector investment. Carbon prices are expected to rise to a suitable level to achieve this in Europe by 2020, and subsequently in other regions and countries.

Technological improvements could reduce the cost of CCS by 50%, to US\$ 30-60/tCO₂e in the medium to long term. However, the cost is likely to rise in the short term as capture technologies are scaled up for the first time and need to be optimised.



7. Policy Support Mechanisms and their Selection

A portfolio of policies in each region, country, state or municipality which – taken as a whole – is needed to efficiently drive the transformation of the current energy infrastructure. Or, in the case of the developing world, drive a leapfrogging over the developed world’s historic carbon-intensive technology choices, in favour of newer and cleaner alternatives.

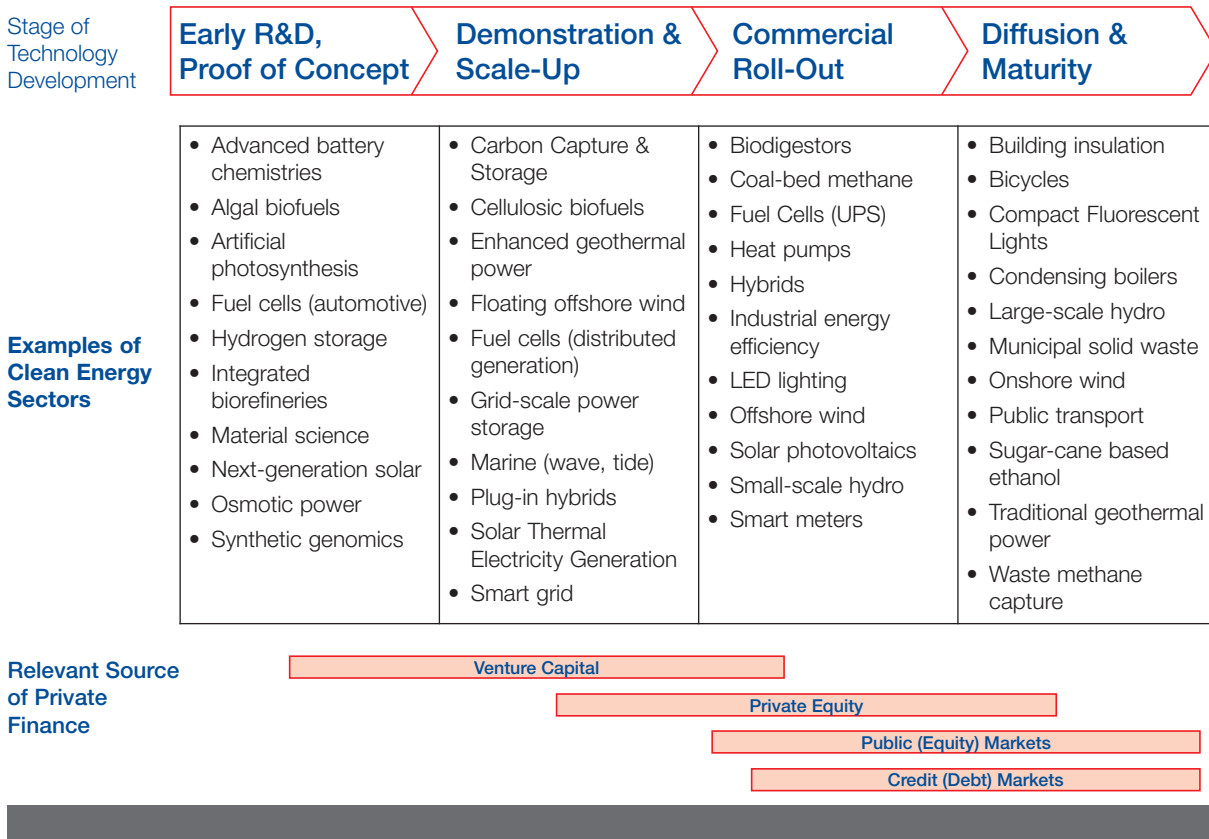
But how should the right policy portfolio be assembled? First and foremost, any policy mechanism needs to be chosen according to the stage of development of the technologies that are to be developed or deployed, and hence the type of financing that the private capital markets should be encouraged to commit (see Figure 21).

Modern wind turbines are the result of over 30 years of development work, improving their size, yield and reliability. Wind energy provides around ten percent of the electrical power requirement of major developed countries like Spain, Germany and Denmark. It is clear that the right policy to encourage its further uptake will be

very different from the policy required to encourage further laboratory research into advanced battery chemistries or to ensure that the first few cellulosic ethanol biorefineries are built.

For the purposes of our analysis we will use a model of technology development based on four stages. Although some models separate early stage R&D from proof-of-concept, we treat them together as the boundary between the two is often blurred.

Figure 21: Clean Energy Technologies by Stage of Maturity and Private Funding Sources



1. Early R&D/Proof of Concept

Encouraging innovation at a very early stage is the essential first step of bringing new ideas to market. Research and development can be undertaken by major corporations or small private companies; it can be funded by government either directly or through national labs or universities, or it can be funded by venture investors or the capital markets; it can be helped by incubators or angel networks.

Different clean energy technologies have very different characteristics in terms of capital intensity, level of innovation and intellectual property content, so a healthy system to accelerate and increase the volume of early-stage innovation is likely to bring together a range of different policy measures.

2. Demonstration & Scale-Up

Companies seeking to move their technology from the laboratory to the marketplace must bridge the notorious funding gap known as the 'valley of death': the point when the lab work and proof-of-concept have been completed, and it is time to build the first few full-scale projects or manufacturing plants.

Energy technologies appear to suffer particularly high attrition at this point in the development cycle. The first full-scale facility may require raising funds from new types of investor – usually debt providers who prefer not to take on technology or policy risk. Venture capital investors, meanwhile, are generally uncomfortable financing "steel in the ground": they are not experienced at project finance structuring or managing construction risk, and the returns on capital-intensive businesses are rarely high enough to satisfy the venture capital investment model.

The focus of policy to bridge this stage of technology development needs to be on mechanisms which bring forward access to traditionally later-stage financing by absorbing those risks – and only those risks – which the capital markets are not able to take.

3. Commercial Roll-Out

Proving that a new energy technology works at the required scale of project or manufacturing plant is not the end of the story. Fossil-based technologies, whether coal-fired power plants or internal combustion engines, benefit from over a hundred years' worth of technology development and trillions of dollars of cumulative investment in their supply chains. It is no wonder that their levelized cost – the cost without any subsidies or support mechanisms – is lower than those of new clean energy technologies.

During the commercial roll-out stage, the accent is on gaining experience and scaling as quickly and as efficiently as possible. Technologies in this stage need economic support, but the key is to make sure such support is reduced at exactly the right speed: too fast, and you get boom-bust cycles; too slow and you create an expensive and distortive long-term subsidy.

In addition, these technologies are often held back by barriers to rapid roll-out. These must be identified and removed by determined policy-makers.

4. Diffusion & Maturity

In an ideal world, once they have reached maturity, clean energy technologies would be able to compete on an unsubsidised basis with fossil fuels and win. In the very long term, this will no doubt be the case, as experience effects relentlessly drive down the cost of clean energy and depletion drives up the cost of fossil fuels.

Nevertheless, there are a number of reasons why policy interventions may still be needed to encourage the adoption of even mature clean energy technologies.

- **Fossil-based energy rarely pays for the externality costs it incurs.** An increasing carbon price over time, whether arising as a result of international negotiations or unilaterally in individual regions, countries or states, will serve to reduce the need for long-term support mechanisms for mature clean energy technologies. Were fossil fuels also to bear the public health and security costs they incur, the playing field for mature clean energy technologies would be more level.
- **Energy diversity has value to society, but not to individual energy producers.** Drawing on a mix of energy sources helps to insulate an economy against energy price spikes. Distributed energy is local energy, and therefore by definition more secure than imported energy sources. Yet if these public goods are not priced into the energy markets, then there is no incentive for developers to choose anything other than the lowest-cost solution.
- **Insufficient information.** Energy users may not have sufficient information to make informed choices – for instance when home-owners cannot see the impact of individual appliances or energy-saving investments, or when commercial tenants do not have individual meters within a building.
- **Insufficient access to finance.** While utilities and heavy industry can generally be relied on to make value-maximizing investment decisions, individuals and smaller businesses often simply do not have sufficient

access to finance to make investments, even when these would make economic sense.

- **In many markets fossil fuels are subsidized.**

According to the International Energy Agency, fossil fuel subsidies in the largest 20 non-OECD countries alone amounted to US\$ 310 billion in 2007. At its Summit in Pittsburgh in 2009, the G20 members agreed to phase out such subsidies “in the medium term”. This will – assuming it actually happens – clearly help mature clean energy technologies to compete on a level playing field.

Comparison of Policy Mechanisms

Policy-makers face different challenges in encouraging the development and deployment of clean energy technologies depending on their stage of maturity. And at each stage, there are a range of possible policy mechanisms that can be deployed, falling into five different types: changes to the nature or regulation of energy markets; support for equity investment; support for debt investment; changes to the tax code; or the creation of markets to trade emission credits. (See Figure 22)

What we have done is assemble what we hope is a useful list of 35 different types of policy intervention which can be used to spur the transition to a low-carbon energy infrastructure. In the charts which follow, we have sought to match the policy tools to the most relevant stage of maturity of the technologies they seek to promote. We have then rated each policy tool on three key dimensions:

- **Scale:** Can the mechanism quickly operate across multiple technologies and projects in multiple environments, or is it only applicable to a niche opportunity?
- **Efficiency:** Can the mechanism be targeted in an economically efficient way at supporting clean energy, without unintended consequences and without creating new bureaucratic overhead?
- **Multiplier:** Does each dollar of public money attract follow-on funds from private investors? Does each dollar double-task in terms of creating jobs or other social benefits?

Finally, we have indicated whether each mechanism is likely to be suitable in the developed world, in emerging markets – broadly those which are industrializing rapidly and already have a fairly well-developed energy infrastructure in place – or in the slower-developing world.

No simple rating system can attempt to capture all the nuances of any mechanism, its appropriateness or otherwise in a particular local context. In addition, careful

design can counteract the natural weaknesses of almost any mechanism and likewise poor implementation can render the most elegant plans ineffective. This material therefore cannot be used as a fully-developed tool-kit for policy-makers. Rather it is intended to further understanding of the broad range of mechanisms at policy-makers’ disposal, and promote debate on how to choose between them.

In this effort we did not aim to be fully comprehensive: we have not covered mechanisms to slow or reverse deforestation, or to shift to low-carbon agricultural methods. We also have not looked at mechanisms specifically targeted at the promotion of nuclear power or the protection of jobs (such as local content regulations), which are beyond the remit of this report. In addition, we have made no attempt here to look at interactions between different policies.

Figure 22: Clean Energy Technologies by Stage of Maturity and Private Funding Sources

Stage of Technology Development	Early R&D, Proof of Concept	Demonstration & Scale-Up	Commercial Roll-Out	Diffusion & Maturity
Key Policy Challenges	<ul style="list-style-type: none"> • Increase the volume of early-stage research • Improve the flow of funding to promising research • Transfer academic research into commercial environment • Don't write off promising technologies too early 	<ul style="list-style-type: none"> • Identify scalable, lab-proven technologies • Increase availability of equity • Provide soft debt where it is required for equity to achieve target returns • Establish clear performance milestones • Avoid chasing fads • Don't try to pick winners, but cull losers aggressively 	<ul style="list-style-type: none"> • Develop a replicable blueprint for large-volume roll-out • Provide support to close cost gap with mature technologies • Ensure availability of debt despite technology, market and policy risk • Ensure energy system can absorb new technologies and remain stable • Support/create lead customers 	<ul style="list-style-type: none"> • Ensure energy diversity, if necessary providing long-term support for higher-cost technologies • Protect public budgets • Avoid locking in uncompetitive market structures • Shift emphasis to "polluter pays" rather than maintaining subsidies forever

The Policy Mechanisms:

Energy Market Mechanisms		<ul style="list-style-type: none"> • National/State/local Procurement 	<ul style="list-style-type: none"> • Feed-in Tariffs • Reverse Auctions/Requests for Contract • RPS/Green Certificates • Renewable Fuel Standards 	<ul style="list-style-type: none"> • Best Available Technology Requirements • Utility Regulation
Equity Finance Mechanisms	<ul style="list-style-type: none"> • Incubators • National Laboratories • Prizes • National/State-Funded VC • National/State-Run VC • R&D Grants 	<ul style="list-style-type: none"> • Project Grants 		<ul style="list-style-type: none"> • Technology Transfer Funds • National/State/Local Infrastructure Funds
Debt Finance Mechanisms		<ul style="list-style-type: none"> • Mezzanine/Subordinated Debt Funds • Venture Loan Guarantees 	<ul style="list-style-type: none"> • Green Bonds • Loan Softening/Loan Guarantees • Senior Debt Funds 	<ul style="list-style-type: none"> • Export Trade Credit • Microfinance • Sovereign/Policy Risk Insurance • National/State/Local ESCO Funds
Tax-based Mechanisms	<ul style="list-style-type: none"> • Capital Gains Tax Waivers • R&D Tax Credits 	<ul style="list-style-type: none"> • Development Zones 	<ul style="list-style-type: none"> • Accelerated Depreciation • Investment Tax Credits • Production Tax Credits 	<ul style="list-style-type: none"> • Carbon Tax
Carbon Market Mechanisms				<ul style="list-style-type: none"> • Domestic Carbon Cap and Trade • Project-Based Carbon Credits • National & Multilateral Carbon Funds



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Early R&D / Proof of Concept					
Mechanism	Description	Type of Mechanism	Scale	Efficiency	Multiplier
Incubators	Business development advisories for start-ups	Equity	Red	Yellow	Green
National Laboratories / Research Centers	Creation of national centers for research	Equity	Green	Green	Green
Prizes	Awards used to get early-stage ideas into the marketplace	Equity	Red	Green	Green
National/State-Funded Venture Capital	Investment of public money into commercially-run venture capital funds	Equity	Green	Yellow	Green
National/State-Run Venture Capital	Creation and management of venture capital investment operations by national or state governments	Equity	Yellow	Red	Yellow
R&D Grants	Grants for early-stage technologies	Equity	Yellow	Green	Yellow
Capital Gains Tax Waivers	Waivers on capital gains tax to stimulate investment	Tax	Green	Yellow	Yellow
R&D Tax Credits	Provision of tax credits for investment in clean energy R&D	Tax	Green	Yellow	Yellow
Definitions					
* Scale Can the mechanism quickly operate across multiple technologies and projects in multiple environments, or is it only applicable to a niche opportunity?					
** Efficiency Can the mechanism be targeted economically efficiently at supporting clean energy, without unintended consequences and without creating new bureaucratic overhead?					
*** Multiplier Does each dollar of public money attract follow-on funds from private investors? Does each dollar double-task in terms of creating jobs or other social benefits?					
Note: Equity is used to describe grants as well as true equity investments, since a grant effectively replaces equity finance					

		Key:	High	Medium	Low
		Suitability for:			
Comment	Examples	Developed Markets	Emerging Markets	Developing Markets	
Over 160 incubators worldwide are working on commercialising clean energy. Quality of support is patchy and successes rare.	UK Carbon Trust's incubator programme provides start-ups with consulting services Austin Technology Incubator CIIE India CIETEC Brazil IIE Mexico.	☑	☑	☑	
Many energy and communications technologies we now take for granted arose from work undertaken in national labs. They can create critical mass in pre-commercial research, should not crowd out private funding, and have long time horizons.	Energy Research Centre of the Netherlands Risø National Laboratory for Sustainable Energy Denmark UK Energy Research Centre National Renewable Energy Laboratory USA Oak Ridge National Laboratory COPPE & CEPTEL, Brazil Fraunhofer Institute Germany.	☑	☑	☒	
Suitable for technologies which require a single breakthrough, rather than process improvement, and where non-traditional answers are sought. Growing in popularity even when not appropriate.	X Prizes for super-efficient passenger vehicles and for biofuels Zayed Future Energy Prize ConocoPhillips Energy Prize UK Government £1bn prize for large-scale CCS US DOE's L Prize for efficient light bulbs & H Prize for hydrogen storage Scotland's Saltire Prize for wave and tidal energy.	☑	☒	☒	
Becoming more popular than directly creating publicly-run venture capital operations. Some evidence of good track record, and can also create significant multiplier effect.	CalPERS/CalSTRS pioneering "Green Wave" initiative, 2004 CalCEF Asian Development Bank recently invested in several privately managed funds US's planned Cleantech Fund CVC Reef Australia Cleantech Australia Fund.	☑	☒	☒	
Popular around the world as solution to perceived equity gaps challenges include attracting top investing talent and maintaining investment discipline. Poor track record of success.	UK's Carbon Trust Investments initially operated as a state-funded VC, but was later spun out. Sitra Finland, Massachusetts Green Energy Fund ITI Energy Scotland Sustainable Development Technology Canada.	☑	☑	☒	
Can be an efficient way of routing funding to promising technology. Risk of bureaucratic overload and slow responsiveness of programmes. Small companies can find it hard to access grant process.	In 2009 stimulus packages alone, R&D grants were made in the US (ARPA-E), Canada, Japan, Germany, France, UK, Spain, Italy and Australia. DG Research of the EC administers substantial European funds from the 7th Framework Programme.	☑	☒	☒	
Widespread use to spur venture-type investment by high-rate taxpayers. Prone to being "gamed" by dressing up safe investments as R&D.	No examples known of specific CGT waivers targeted at investment in clean energy.	☑	☒	☒	
Widespread and successful use over a long period to increase research spending in industry. Suitable for sectors which large incumbents (with stable profits to shelter) are expected to dominate.	No trend yet towards targeted tax credits for clean energy research.	☑	☒	☒	

Demonstration & Scale-Up					
Mechanism	Description	Type of Mechanism	Scale	Efficiency	Multiplier
National/State/Local Procurement	Requirement that public entities procure clean energy or use emerging efficient technologies	Market	Green	Yellow	Green
Project Grants	Project-specific grants to encourage deployment of a particular technology	Equity	Yellow	Red	Yellow
Mezzanine/Subordinated Debt Funds	Credit lines for subordinated debt onlending to projects	Debt	Green	Yellow	Yellow
Venture Loan Guarantees	Public guarantees for private loans to technologically risky projects or companies which would not otherwise have access to debt	Debt	Green	Red	Green
Development Zones	Tax exemptions and funding to encourage innovation	Tax	Red	Yellow	Green
Definitions * Scale Can the mechanism quickly operate across multiple technologies and projects in multiple environments, or is it only applicable to a niche opportunity? ** Efficiency Can the mechanism be targeted economically efficiently at supporting clean energy, without unintended consequences and without creating new bureaucratic overhead? *** Multiplier Does each dollar of public money attract follow-on funds from private investors? Does each dollar double-task in terms of creating jobs or other social benefits?					

		Key:	High			
			Medium			
			Low			
		Suitability for:				
Comment	Examples	Developed Markets	Emerging Markets	Developing Markets		
Given the volume of energy used by public bodies, clear statement of intent to procure clean energy should be a powerful and underused mechanism in creating markets. This is an under-used mechanism.	Bill Clinton broke new ground in 2000 with Executive Order 13149 mandating use of biofuels in the Federal vehicle fleet Spanish Ministry of Environment Finland targeting 30% public procurement of renewable energy by 2010.	☑	☑	☒		
Widely used to encourage first roll-out of new technologies. Giving grants avoids the unpleasantness of having to write off poor investments. Still involves trying to pick winners.	\$500m grant programme in US for advanced biofuels facilities Danish govt co-funding for Inbicon cellulosic bioethanol plant wood pellet project grants in Austria and Germany European grants for CCS, including Connecticut Clean Energy Fund invests in projects.	☑	☑	☒		
Useful for projects which may have timing/construction risk or highly volatile returns, since debt payment is flexible.	The FIDEME fund (public & private money) lends subordinated debt, mainly to wind, but also biofuels, hydro and recycling projects in France.	☑	☑	☒		
In essence acts as a form of insurance against technology, business model or other "proof-of-concept" risk	American Recovery and Reinvestment Act 2009 contained a provision for loan guarantees to newer technologies.	☑	☑	☒		
Commonly used at a local government level to attract companies to their area.	China and India have a number of development zones focused on clean energy Oregon (US) has a Rural Renewable Energy Development Zone In the UK, One North East tries to attract clean energy businesses. Utah and other US states passed legislation in 2009 to set up renewable energy development zones.	☑	☑	☒		

Commercial Roll-Out					
Mechanism	Description	Type of Mechanism	Scale	Efficiency	Multiplier
Feed-in Tariffs	Guarantee of power prices above the average market rate, depending on renewable technology used	Market	Green	Red	Green
Reverse Auctions / Requests for Contract	Competitive tender for power purchase deals targeted at a specific technology	Market	Yellow	Green	Green
RPS / Green Certificates	Requirement for utilities to source a specific % of power from renewable sources	Market	Green	Yellow	Yellow
Renewable Fuel Standards	Requirement that a proportion of transport fuel is supplied by biofuels or some other low-carbon alternative	Market	Green	Yellow	Green
Green Bonds	Debt raised by a highly-rated issuer to lend to clean energy projects with otherwise high capital costs	Debt	Green	Yellow	Yellow
Loan Softening / Loan Guarantees	Programmes designed to reduce the cost of private lending and improve project economics	Debt	Green	Yellow	Yellow
Senior Debt Funds	Credit lines for senior debt lending to projects	Debt	Yellow	Red	Red
Accelerated Depreciation	Granting the right to depreciate certain types of clean energy equipment over an accelerated time-frame to reduce tax liabilities	Tax	Green	Green	Yellow
Investment Tax Credits	Faster write-off of investment to reduce tax paid in the early years of a project	Tax	Green	Green	Yellow
Production Tax Credits	Credits to encourage consumers and businesses to invest in specific products or projects	Tax	Green	Green	Yellow
Definitions					
* Scale Can the mechanism quickly operate across multiple technologies and projects in multiple environments, or is it only applicable to a niche opportunity?					
** Efficiency Can the mechanism be targeted economically efficiently at supporting clean energy, without unintended consequences and without creating new bureaucratic overhead?					
*** Multiplier Does each dollar of public money attract follow-on funds from private investors? Does each dollar double-task in terms of creating jobs or other social benefits?					

		Key:	High	Medium	Low
		Suitability for:			
Comment	Examples	Developed Markets	Emerging Markets	Developing Markets	
Much loved by industry for removing all risks. Successful at encouraging scale and supply-chain investment, but hard to choose right tariff so market distortive and hard to dismantle. Simple and effective for retail market along with net metering.	Credited with jumpstarting the solar sector in Germany and Spain. Also in place in Italy, Ontario, Czech Republic and elsewhere China, UK and other countries looking to introduce feed-in-tariffs for selected markets.	☑	☑	☒	
Auctions are more bureaucratic than feed-in tariffs, but have the benefit of allowing price discovery they keep the industry focused on cost reduction, not lobbying. Risk of gaming/non-delivery.	China (wind and solar), Canada and Brazil (wind) have led the way being tried in California for solar from 2012.	☑	☑	☒	
Many schemes in Europe and the US. Less loved by the industry than feed-in tariffs, but experience from Texas and UK offshore wind show it can be made to work.	UK ROCs Sweden Italy and Poland - Green Certificates Romania, Netherlands and US - RECs. Sweden looking to link its scheme with Norway.	☑	☒	☒	
Can be a very quick and effective way of spurring a shift to low-carbon fuel if the standard is set too high, can lead to wild fluctuations in biofuel and feedstock prices risk of pushing up food prices.	US Energy Policy Act 2005 Renewable Fuel Standard California Low-Carbon Fuel Standard European Biofuels Directive.	☑	☑	☒	
Suitable for stable technologies being deployed by smaller developers or in markets with high capital costs.	World Bank \$350m issue of green bonds in 2009 to invest in developing countries US Treasury \$2.2bn Clean Energy Renewable Bonds (CREBs).	☑	☒	☒	
Widely used for renewable energy and efficiency projects - spurring private financial institutions to lend on terms not otherwise available.	Offered by many governments (eg India, China, Thailand) and multilateral lenders (ADB, EBRD, IFC) especially in developing countries. US's 2005 Energy Act and ARRA stimulus programme included loan guarantees IFC also provides loan guarantees.	☑	☑	☑	
Suitable for large scale renewable and grid projects.	European Investment Bank loans to offshore wind IFC Sustainable Energy Finance Programme supports national financial institutions Asia Development Bank loans to wind and waste projects.	☒	☑	☒	
Suitable for established technologies at the roll-out stage, esp those with high capital costs.	MACRS provisions in the American Recovery & Reinvestment Act 2009 California (solar) Europe (offshore wind) Netherlands offered a long-running programme with some success Federal Economic Stimulus Act 2008 provided 50% bonus depreciation.	☑	☒	☒	
Similar to accelerated depreciation, but calculated as % of investment and deducted from tax liability, rather than via depreciation.	The main support mechanism for large-scale solar in the US.	☑	☒	☒	
Popular way of improving the economics of clean energy, particularly wind. Shifts burden of support from utilities / state to Federal budget. Limited by availability of corporate profits and subject to political whims.	Important driver of wind installations in the US until 2008. Also used in Japan, Brazil and Australia.	☑	☑	☒	

Diffusion & Maturity					
Mechanism	Description	Type of Mechanism	Scale	Efficiency	Multiplier
Best Available Technology Requirements	Rules preventing the use of technologies that don't match best in class	Market	Green	Yellow	Green
Utility Regulation	Restructuring regulation so that utilities have incentive to sell less power, not more	Market	Yellow	Green	Green
Technology Transfer Funds	Funds aimed at purchasing IP rights to technology for dissemination in the developing world	Equity	Yellow	Red	Red
National/State/Local Infrastructure Funds	Public investment in equity or debt funds invested in clean energy projects	Equity/Debt	Green	Yellow	Red
Export Trade Credit	Soft loans either to overseas buyers of technology or to domestic manufacturers	Debt	Green	Yellow	Yellow
Microfinance	Provision of debt to fund clean energy equipment such as solar lanterns or biodigestors or irrigation pumps	Debt	Green	Green	Green
Sovereign / Policy Risk Insurance	Provision of insurance to private investors against sovereign or energy policy risk	Debt	Green	Red	Green
National/State/Local ESCO Funds	Municipal or other public funds lent to home-owners and businesses for efficiency retrofits and repaid from savings	Debt	Yellow	Green	Red
Carbon Tax	Tax levied on dirty energy production in order to discourage it	Tax	Green	Yellow	Green
Domestic Carbon Cap and Trade	Creation of tradeable emission permits, which can be given to historic emitters free or bought by them	Carbon	Green	Yellow	Green
Project-Based Carbon Credits	Allowing projects that reduce emissions vs business-as-usual to sell credits into mature market cap-and-trade schemes	Carbon	Yellow	Red	Green
National & Multilateral Carbon Funds	Financial support for carbon credit production to improve project margins	Carbon	Yellow	Yellow	Red

Definitions

* **Scale** Can the mechanism quickly operate across multiple technologies and projects in multiple environments, or is it only applicable to a niche opportunity?

** **Efficiency** Can the mechanism be targeted economically efficiently at supporting clean energy, without unintended consequences and without creating new bureaucratic overhead?

*** **Multiplier** Does each dollar of public money attract follow-on funds from private investors? Does each dollar double-task in terms of creating jobs or other social benefits?

		Key:	High	Medium	Low
		Suitability for:			
Comment	Examples	Developed Markets	Emerging Markets	Developing Markets	
Much used to drive appliance efficiency and vehicle gas mileage improvements. Much discussion about broadening use.	US CAFE standards EU phase-out of incandescent light-bulbs.	☑	☑	☒	
Key element in the drive for energy efficiency does not encourage renewable energy.	California requires electricity utilities to invest in energy efficiency Idaho (Idaho Power) Ohio (Duke Energy) Nevada utilities earn higher return on efficiency investment.	☑	☒	☒	
Attractive to developing countries wanting to move away from resource and labour-based economies, but proponents rarely explain incentive for technology developers to co-operate.	In pharmaceutical sector, Global Fund for Aids no examples yet of clean energy technologies being acquired for free distribution.	☒	☒	☑	
Good way of getting a number of projects done, but little in the way of multiplication. May crowd out private money.	Building Canada Fund, Canadian Clean Energy Fund.	☑	☑	☒	
Designed to promote domestic manufacturers, but with high risk of distorting markets. Will need to gain in importance if developing world thirst for clean energy investment is to be slaked.	Export-Import Bank of the US OPIC EKF Export Credit Fund Denmark Austrade etc.	☑	☑	☒	
The combination of microfinance with low-cost distributed energy is a marriage made in heaven, offering.	Grameen Shakti, Selco India, Solar Electri Light Fund, D-Light Design and others run microfinance programmes in various countries. E&Co funds a number of microfinance providers.	☒	☒	☑	
Very much in vogue as way of unlocking private investment in clean energy in developing world. Only problem is that risk remains with developed world's tax-payers, who are also the investors, leading to potential systemic risk.	Multilateral Investment Guarantee Agency.	☒	☑	☑	
Getting the ESCO model to work at scale is the holy grail to drive building energy efficiency. To date, however, it has proven bureaucratic and take-up is limited.	PlaNYC offers US\$ 16 million revolving Energy Efficiency & Conservation Block Grant fund UK GB£ 84 million Social Housing Energy Saving Programme London GB£ 4 million London Green Fund EBRD/EIB/KfW/EU EUR 95 million Southeast Europe Energy Efficiency Fund	☑	☑	☑	
Promoted by many as the simplest way to shift from fossil fuels. However, unilateral implementation risks driving industry overseas, and hypothecating tax to spend on clean energy is usually politically impossible.	Credited with much success in Sweden, but seen as failure in Denmark in 1990s. In other countries (eg UK Fossil Fuel Levy) set too low to drive switching behaviour. France carbon tax legislation currently stalled.	☑	☒	☒	
Ideally provides a price signal which shifts investment decisions towards lower-carbon technologies. Proven to have driven switching from coal to gas in Europe, but price level & volatility too low to promoter renewable energy or CCS.	EU-ETS in Europe RGGI in North-East US New Zealand. Markets under discussion include California, US Federal market, Australia, Japan, Canada.	☑	☒	☒	
Effective source of finance for projects under Kyoto, but seen by some flawed since they allow emissions to exceed caps in the developed world, and reward developers only vs business-as-usual. Also highly bureaucratic and open to fraud.	Kyoto Clean Development Mechanism (CDM) and Joint Initiatives (JI) voluntary carbon markets, including Gold Standard credits.	☒	☑	☑	
Initial creation of UN Prototype Carbon Fund was important to jump-start trading. Should not be needed except to hit national goals. Will only spur renewable energy if given that mandate.	Many national carbon funds KfW Carbon Fund, a joint initiative between the German government and the EIB.	☑	☑	☒	



Appendix 1 – Overview of Key Renewable Energy Technologies

1. Onshore Wind

The most mature of the renewable energy sectors, the onshore wind industry saw a record 27GW built in 2008, bringing installed capacity worldwide to over 120GW. This increased to an estimated 140GW during 2009. The US overtook Germany as the country with the largest installed wind capacity, adding nearly 4GW during 2008. China's installed wind capacity also surged, more than doubling between 2007 and 2008 to top 12GW. The Global Wind Energy Council forecasts that the global wind market could grow to reach installed capacity of over 1,000GW by 2020, saving 1.6 billion tonnes CO₂e pa.

Electricity from onshore wind can be generated at prices of US\$ 7-12 cents/kWh. While this is 50% more expensive than natural gas CCGT, onshore wind can compete with conventional generation without subsidy, where wind speeds are high enough.

Table 3. Onshore Wind – Economic Overview

Potential Scale	Greater than 800GW, of which only 140GW has been exploited.
Market Readiness	LCOE = \$68-116/MWh
Project Returns	10-20% depending on market and resources

Source: New Energy Finance

Policy Status and Gaps

There is no doubt that subsidy support, in the form of feed-in tariffs and tax credits, has spurred onshore wind development in countries such as Spain, Germany and the US, and increasingly in China. However, accelerated planning processes and incentives/regulation to spur integration and remove grid bottlenecks are needed.

Table 4. Top Five Wind Markets by Capacity 2008

Market	Capacity (GW)
US	25.2
Germany	23.9
Spain	16.8
China	12.2
India	9.6

Source: New Energy Finance, GWEC

Technology Gaps

Onshore wind is a mature sector, so advances in onshore turbine technology tend to focus on refining existing designs and increasing turbine size. More recently, though, very high demand growth has meant that market incumbents have been unable to keep pace and the sector is now seeing a re-emergence of older technologies and new manufacturers to commercialize them. This includes simplified two bladed turbines, downwind two bladed turbines and major innovations in offshore wind systems (see next section).

Other areas where better technology would boost the onshore wind sector include:

- Drive-train improvements to increase reliability and reduce costs
- Ever-larger turbines. The world's largest turbine is currently Enercon's E-126, which has a rating of 6MW, but is likely to generate in excess of 7MW.
- Supporting infrastructure for wind farms in power storage (to reduce impact of intermittency), resource forecasting (high technology required) and grid expansion (mainly capital)

Potential Bottlenecks

Raising finance remains a bottleneck in the short term, as for all energy projects. This is partly because capital is in tighter supply, and also because lending margins have widened.

Slower demand in 2009 combined with supply improvements have caused blade and turbine costs to fall 15% during the year, so the anticipated supply bottleneck has not materialized.

Planning permission remains an issue, particularly in the most heavily populated and mature European markets, such as the United Kingdom where the government has agreed to a one-year decision process.

In the longer term, the geographic isolation of wind resource areas is a potential bottleneck, as the most accessible onshore sites are exploited.

2. Offshore Wind

After the best sites for onshore wind have been developed, such as in Northern Europe, the next place to look is offshore. Offshore wind offers enormous potential, with stronger, more predictable winds and almost unlimited space for turbines. Planning permission can be easier to obtain, farms can be built at scales impossible on land, and the availability of space is almost unlimited if deep waters are mastered. However, offshore wind faces some logistical and design challenges, including the high cost of grid connection from offshore sites, more wear and tear, and difficult operation and maintenance.

Offshore wind is relatively unexploited compared to onshore wind, with around 2.4GW of capacity installed worldwide, and a further 38GW granted planning permission or under construction.

At present, the cost of electricity from offshore wind is still high – more than 13 US\$ cents/kWh, but this has fallen by nearly 25% over the last year, and continues to fall as more project experience is gained. Long lead times, substantial capital spending (US\$ 300 million+ per project) and long-term operating risk mean that investors (primarily oil and gas firms and utilities) have made cautious moves offshore.

Policy Status and Gaps

Offshore wind tariffs and support mechanisms are currently being put in place to spur significant growth in Northern Europe, particularly in the United Kingdom and Germany where more than 1GW per year is expected to be commissioned over the next five years (see Figure 23). There is also growing support in Nordic markets, Benelux, China and the US.

In December 2009, Germany, France, Belgium, the Netherlands, Luxembourg, Denmark, Sweden, Ireland and the United Kingdom signed the “North Seas Countries’ Offshore Grid Initiative”. The plan, to develop a European offshore wind grid in the North and Irish Seas connecting 40GW of wind generation, will take shape during 2010.

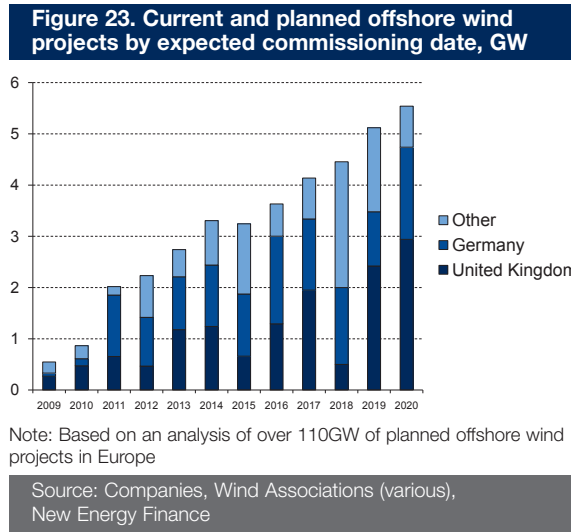
Technology Gaps

Offshore wind faces a far harsher environment than onshore wind, with the result that early versions of onshore turbines installed offshore suffered high-profile and expensive reliability problems. Significant work by Siemens, Vestas, REpower and others have strengthened components and insulated internal mechanisms from salt-laden sea air, improving offshore turbine reliability.

New dedicated “marinized” technology at a larger scale will be rolled out over the next five years. As size

Potential Scale	2.4GW capacity installed currently. 120GW potential by 2030
Market Readiness	LCOE = \$131-245/MWh
Project Returns	Marginal

Source: New Energy Finance



increases, manufacturers are focused on reducing the weight of the nacelle (at the top of the tower) by removing or replacing electrical components, gearboxes or blades. Improving turbine reliability has come at the cost of increased weight, and turbine innovations and deeper water foundations will improve the economics of offshore wind.

Potential Bottlenecks

Offshore turbines have lower profit margins than onshore turbines, so manufacturers are mainly focused on producing onshore devices, creating a potential bottleneck for offshore ones. Developers may continue to favour onshore wind as access to capital is still limited, and the risk-return ratio on offshore wind returns remains relatively unattractive.

3. Solar – Photovoltaics (PV)

PV technology has made very rapid strides in the past four years, in terms of reducing the cost of crystalline silicon (its main component) and commercialising thin film technology. However, PV remains one of the most expensive renewable energy sources in nearly all applications. The main growth market is grid-connected power plants supported by generous incentives. PV will become increasingly cost-competitive in some mainstream retail markets, which will unlock substantial demand, but not for several years.

In 2009, new build PV improved on 2008's record levels, with an estimated 6.4GW installed during the year (see Figure 24) to reach approximately 21GW of global capacity.

Solar project costs have fallen sharply. 2009 saw new solar-grade silicon capacity coming on line and a collapse in demand from Spain. These influences unblocked the supply bottleneck and halved the price of PV modules compared with 2008. Large-scale projects using conventional PV modules can now be built for under US\$ 4/W - the cost of the modules alone in 2008. Thin-film PV projects have been announced and built for as little as US\$ 3/W. As a result, unsubsidised large-scale PV generation costs in sunny parts of the world with moderate capital costs are similar to daytime peak retail electricity prices of approximately 17 US\$ cents/kWh.

Now that the silicon bottleneck has eased, with prices falling to US\$ 1.80/W for conventional silicon modules and forecast to be below US\$ 1.50/W in 2010, thin-film technologies are less obviously attractive. Thin-film has taken an increasing share of the global PV market (from 14% in 2007 to 18% in 2008), but this rate of growth slowed in 2009, sustained mostly by thin-film leader First Solar which produced 1GW at an average cost of below US\$ 1/W.

Policy Status and Gaps

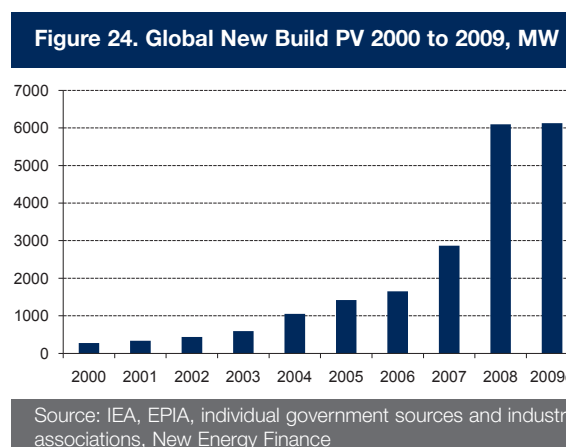
Incentives in the form of feed-in tariffs, grants and/or tax credits are by far the most significant driver of the PV market, for example in Japan, Germany, Spain, and California. Conversely, where subsidies are being capped or phased out, as now in Japan and Spain, installation slows.

Sympathetic tax treatment for R&D would help stimulate technology development, for example to boost thin-film and crystalline silicon efficiency and the development of new PV products.

Technology Gaps

The PV industry's key challenges remain the mass manufacture of scalable, high-efficiency thin-film modules

Potential Scale	21GW currently installed. Potential capacity limited only by economics – 1000GW could be installed by 2030
Market Readiness	LCOE = \$170-450/MWh Currently uneconomical but costs have fallen dramatically during 2009, and will continue to fall
Project Returns	Heavily dependent on incentive regime
Source: New Energy Finance	



and continuing to reduce the cost of crystalline silicon modules. During 2009, PV made promising steps towards being cost-competitive in its own right, but how these trends develop over the next few years will be crucial.

Potential Bottlenecks

The main constraints to the PV industry's growth are: shortage of affordable capital (PV projects are extremely sensitive to interest rates because nearly all the cost is upfront), caps to incentive regimes, customer inertia, slow planning permission and transmission bottlenecks. Oversupply of modules will continue in the short term, with the price likely to fall to the marginal cost of production, representing a further 15% fall in price for crystalline silicon modules.

4. Solar Thermal Electricity Generation (STEG)

Solar thermal electricity generation (STEG; also known as concentrated solar power or CSP) is the utility-scale cousin to PV, historically the project developer's choice for central station generation plants (50MW+). Where PV generates electricity photo-electrically (by converting light directly into energy), STEG is thermo-electric. It converts light into heat by concentrating the sun's rays onto a heat collection system, and then converts this heat into electricity via either a heat engine, or a boiler which drives a steam turbine.

STEG has historically been the solar market front-runner for lowest Levelized costs of energy and cost per W installed. However, the dramatic decline in PV prices means that STEG no longer holds the cost advantage on a per-kWh basis, though it will always be a competitive renewable energy technology due to its favourable performance characteristics.

There is very little installed STEG capacity worldwide; just 616MW, although there is a strong forward pipeline of projects. The conditions for STEG are particularly attractive in Spain and the US, in terms of both incentives and resource, and projects here will add more than 5GW between now and the end of 2013 (see Figure 25). There are also several projects backed by government tenders in the Middle East and World Bank funding of US\$ 5.5 billion in North Africa, where the Desertec Industrial Initiative has attracted heavyweight financial backers, such as Munich Re, Siemens, Deutsche Bank and MAN Solar Millennium. Mexico, Australia and the Persian Gulf are emerging STEG markets.

Policy Status and Gaps

Like PV, STEG is highly subsidy-dependent, and there are only two near-term markets: Spain (using feed-in tariffs) and the US (Investment Tax Credit & DoE Loan Guarantee programme). In other markets, progress on government tenders and development projects is slow.

Technology Gaps

The STEG supply chain is dominated by established multinational corporations and increasingly well-funded specialists who continue to refine their technologies. While parabolic trough is essentially a mature technology, and turbine design is unlikely to see any breakthroughs, tower and heliostat STEG designs have the potential for the highest heat and efficiency, and lowest Levelized cost.

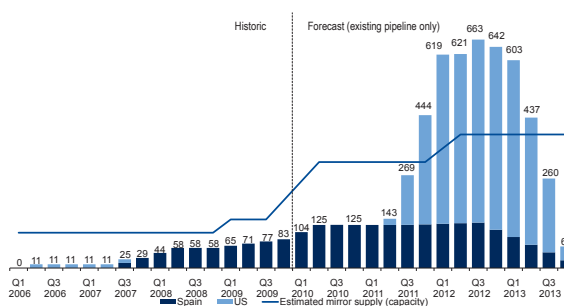
The addition of thermal energy storage, where solar radiation is stored as heat rather than electricity, can allow for systems that operate 16 hours a day at LCOEs potentially lower than any other solar technology.

Table 7. Solar Thermal – Economic Overview

Potential Scale	616MW currently; potential to reach 80GW by 2030 Scale limited only by space and grid connection
Market Readiness	LCOE = \$190-250/MWh Uneconomic at present
Project Returns	n/a

Source: New Energy Finance

Figure 25. STEG project pipeline in US and Spain by quarter, MW



Note: Includes only projects approved for Spanish FIT (661/2007) as well as US projects with power purchase agreements and projects in advanced stages of project financing a planning/ permission.

Source: New Energy Finance

However, storage remains market-driven, rather than economics-driven.

For all STEG projects besides parabolic trough, funding the first large-scale plants will be difficult as they will involve technology risks that have not yet been tested at scale.

Potential Bottlenecks

In Spain, there are no bottlenecks for those with projects in the pipeline. In the US, however, arranging project permissions and transmission access is a multi-year process, and even once achieved, does not mean that the necessary financing will be available.

5. Biomass

Biomass includes a range of feedstocks, such as wood, energy crops and agricultural residues, which absorb carbon from the atmosphere while growing, and return it when broken down through burning, gasification or decay. Biomass feedstock from constantly replenished sources, such as waste, coppiced woodland or rotational cropping, means a closed carbon cycle is maintained with no net increase in CO₂ levels. Biomass is used to produce electricity through incineration, gasification and pyrolysis (thermal conversion) or anaerobic digestion (chemical conversion).

There is currently 45GW of installed biomass capacity worldwide, mainly incineration. Investment held up well in 2009 (see Figure 26), with European biomass attracting a significant share, including two 20MW plants in the United Kingdom and a 20MW, 40-plant biogas park in Germany.

Gasification has several advantages over incineration, including higher efficiencies (38-41%) and an intermediary syngas (similar to natural gas) used in electricity and heat generation and transport fuels. Commissioned gasification capacity is only 124MW. Germany is currently the largest biogas market (1.6GW).

Policy Status and Gaps

Long-term support, such as feed-in tariffs or green certificates, exists in most European countries. Subsidies for co-firing biomass in coal power stations are not usually generous. There is no subsidy for syngas production, which would help to commercialise gasification technology. A federal RPS in the US might be a big driver for the biomass industry, particularly in the southeastern US states, where other renewable resources are scarce. Policy is needed to build feedstock supply; through incentives to farmers to grow energy crops, or to forestry firms to collect their residues.

Technology Gaps

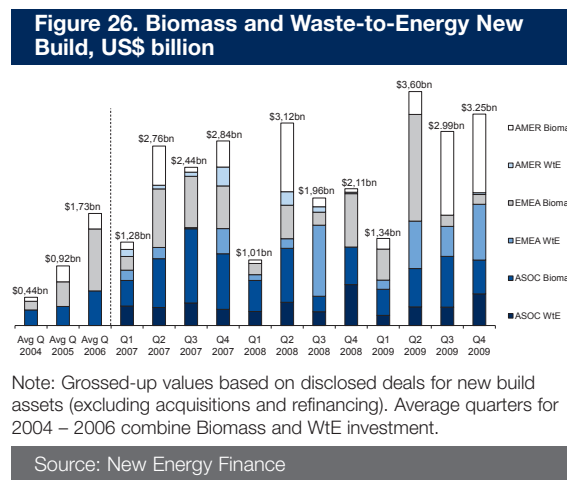
Incineration is a proven technology and is a low-tech process with little scope for refinement. Gasification still requires R&D to resolve technical issues and reduce the high capital costs that prevent use at commercial scale. Improved quality of the syngas is also needed. Improved monitoring of the operation of anaerobic digestion plants would increase their efficiency.

Potential Bottlenecks

Feedstock-related issues represent the industry's main bottleneck. Long-term availability and price security cannot be guaranteed by suppliers, and there is a lack of pricing transparency, as biomass is mostly bilaterally traded. The wood pellet supply chain is relatively well-developed, with reasonably transparent pricing and

Potential Scale	45GW capacity currently installed. 150GW potential capacity by 2030
Market Readiness	LCOE = \$70-148/MWh (incineration) \$90-170/MWh (gasification) \$80-189/MWh (anaerobic digestion)
Project Returns	around 10%, depending on location and availability of feed-in tariffs

Source: New Energy Finance



established supply routes. However, wood pellets are generally used for residential power, and rarely in dedicated power plants because they are more than twice as expensive as other biomass feedstock.

Other biomass bottlenecks include the availability of capital and turnkey construction providers, and long lead times for boilers and turbines due to recent high demand.

6. Municipal Solid Waste-to-Energy

Solid waste-to-energy (WtE) uses the same conversion technologies as biomass, but its economics are fundamentally different. Whereas biomass generators have to buy in feedstock, sometimes over long distances, WtE plant operators are paid to take and treat municipal solid waste (MSW). WtE therefore has a very low levelized cost of energy, producing electricity as cheaply as 4 US\$ cents/kWh. However, to date, only 18GW of capacity has been installed worldwide, and WtE's long-term potential is limited - up to 50GW by 2030, far less than wind, solar or biomass.

In the short term, prospects are good as waste legislation tightens and alternatives to dumping waste in landfill are sought. As landfill gate fees rise and burying rubbish is increasingly considered environmentally unacceptable, burning waste will become more attractive. However, most major markets will have reached their targets by 2020 and in the medium term the growth rate will be low.

For the time being, though, waste-to-energy remains a viable way of cutting landfill, and plants continue to attract investors. For example, a 420,000-tonnes-per-year, 100MW WtE plant is being built in Cheshire, United Kingdom by Ineos Chlor, Viridor Waste Management and John Laing.

As well as incineration, waste can also be gasified, with the resulting gases (largely methane and carbon dioxide) being used to fuel rubbish trucks and other municipal vehicles, generate power or burnt off. While gasification has tended to use agricultural residues and non-food grasses as feedstock in recent years, now municipal and industrial waste are dominant as feedstock for new gasification plants coming on stream.

Incineration remains the dominant process for both biomass and WtE (see Figure 27). Anaerobic digestion has taken over from landfill gas as the dominant gasification technology in Europe.

Policy Status and Gaps

Policy in many countries currently supports municipal waste-to-energy by making landfill expensive. Increasing gate fees and other taxes on waste will increase incentives further. The EU Landfill Directive (1999) stipulates that member countries must reduce the amount of biodegradable waste going to landfill to 35% of 1995 levels by 2020, and some countries have started to tackle the problem at source by cutting down on rubbish collection or making householders pay for collections.

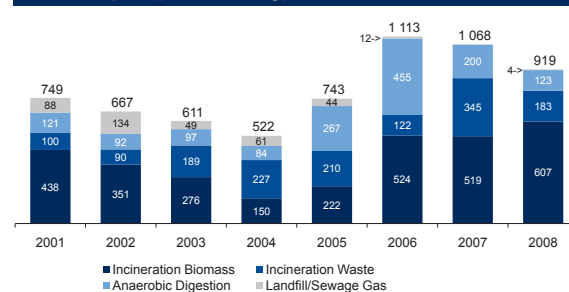
As incineration of MSW usually provides good revenues there are subsidies in only a few countries. However, to

Table 9. Municipal Solid Waste-to-Energy – Economic Overview

Potential Scale	18GW capacity currently installed. 50GW potential capacity by 2030
Market Readiness	LCOE = \$38-157/kWh
Project Returns	around 12%

Source: New Energy Finance

Figure 27. Commissioned Biomass & WtE capacity in Europe by technology 2001 to 2008, MW



Source: New Energy Finance, Platts, German Biogas Association

promote the gasification of MSW, feed-in tariffs or similar incentives are required.

Technology Gaps

As with biomass, incineration is a proven technology, while there is still scope for technology development in gasification.

Potential Bottlenecks

Permitting remains a major bottleneck, both in terms of speed and also public opposition.

As in the biomass power industry, there are few turnkey providers in the WtE industry and there are long lead times for boilers and turbines due to recent high demand.

7. Geothermal

Geothermal power is a particularly attractive renewable energy source as it can be used as predictable baseload energy, unlike wind and solar power. Geothermal can also provide electricity, heating and cooling.

Global installed capacity at the end of 2009 was estimated to be 10.5GW. The US has the world's highest installed geothermal capacity (3GW, 80% of which is in California), followed by the Philippines (1.9GW), where geothermal provides 20% of the country's electricity. In Iceland, geothermal produces 26% of the country's power and 87% of its building heating. Emerging geothermal markets include Australia and Chile.

Until now, only a fraction of conventional global geothermal resources have been tapped, but a raft of new approaches, such as Enhanced Geothermal Systems (EGS), aim to make it viable across a wider area. Spurred in part by regulatory support and incentive structures, there is now a geothermal development pipeline of 12.4GW (see Figure 28), with the US responsible for 4GW.

Geothermal energy remains the lowest cost form of renewable energy at US\$ 59-83/MWh. However, projects are long (see Figure 18) and capital costs are high due in part to expensive and risky exploration drilling. Geothermal projects can produce at 90%+ capacity for 30 years or more.

Policy Status and Gaps

As baseload power, geothermal contracts are typically signed at lower rates than other renewable sources, but the high capacity factor yields more favorable project economics. In the US, geothermal is included in the Renewable Portfolio Standard (RPS), and benefits from tax credits such as the PTC and ITC, as well as loan guarantees and green stimulus grants worth US\$ 400 million.

Technology Gaps

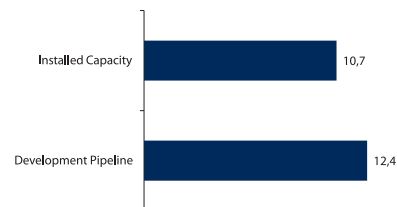
Enhanced Geothermal Systems (EGS) "enhance" or even create geothermal systems where natural fractures provide inadequate flow rates. The resource potential for EGS is vast – estimated at 517GW for just the US – and the technology has been proven, although currently only two EGS plants are operational worldwide. Australia has the world's largest EGS plant (5-10GW) under construction.

For conventional geothermal, improvements in exploration technology would facilitate development of resources with no surface manifestations, and improve the current drilling success rate of just 20% in greenfield sites, dramatically cutting development costs.

Table 10. Geothermal – Economic Overview

Potential Scale	10GW currently installed 40GW potential capacity by 2030
Market Readiness	LCOE = \$55-83/MWh
Project Returns	12-37%
Source: New Energy Finance	

Figure 28. Global Commissioned and Development Geothermal Capacity 2009, GW



Source: New Energy Finance

Potential Bottlenecks

As more companies become involved in developing geothermal projects, the higher demand risks creating a construction bottleneck, increasing lead times and capital costs. This is encouraging vertical integration (developers buying drilling companies) as well as developers forming 'drilling clubs' to book up rigs for long periods. With depressed oil prices, oil and gas drill contractors are increasingly venturing into geothermal as a means of keeping their rigs busy.

For turbines and surface equipment, there is a backlog of plant orders as manufacturers struggle to keep pace with demand from the large project pipeline. Long lead times for land siting, permitting and rights of way are other major bottlenecks for the geothermal sector. This could be eased by relaxing certain rules and streamlining the process.

8. Small Hydro

Hydro is a well-established renewable source of electricity worldwide; large-scale and small hydro together account for 16% of global power. However, because large hydro can have negative environmental consequences, and because the most accessible large hydro resources have already been tapped, only small hydro (up to 50MW) is considered here. Installed small hydro capacity is currently 92GW, with the potential to expand more than threefold to 328GW by 2030.

Hydro is a mature technology, but it is a variable source of power, dependent on rainfall patterns and therefore often seasonal. In the longer term, climate change may make some existing hydro unviable. However, hydro remains an important part of the clean energy mix because 90% of the unexploited resource is in developing countries, in Sub-Saharan Africa, South & East Asia and South America, where cheap, renewable power, particularly for remote rural communities, is a priority. Africa, for example, exploits just 8% of its hydropower. Its other advantages are a long life span (50-100 years) and, in pumped hydro, a system for storing freshwater supplies.

In China, the government has set a target for small hydro to increase from 55GW currently to 75GW by 2020, although this will be eclipsed by large hydro, whose target is 225GW. Also, China may favour solar and wind development on the basis that these industries offer better export potential for its manufacturing base.

In Brazil, installed capacity for small hydro (up to 50MW) is 4.2GW, and there are over 1,000 projects, or 8.2GW, approved or under study by the Brazilian Energy Regulator (ANEEL). However, these projects face several bottlenecks, such as regulatory bureaucracy and environmental issues.

In Europe, small-hydro expansion has been constrained by the implementation of the EU Water Framework Directive, introduced to protect aquatic ecosystems and water quality. This is likely to result in a reduction in small hydro generation in the EU. Activity in Eastern Europe is also expected to fall following several years of high investment and intensifying competition for sites.

Small hydro has proved relatively resistant to the economic downturn as projects are perceived as relatively low risk and their size means many can be financed by a single commercial or development bank. During 2009, nearly 150 new small hydro projects were announced, totalling 2GW of capacity.

Table 11. Small Hydro – Economic Overview

Potential Scale	92GW installed capacity 328GW potential capacity by 2030
Market Readiness	LCOE = \$70-120/MWh
Project Returns	8-13%

Source: New Energy Finance

Policy Status and Gaps

Renewable Portfolio Standards, Rural Electrification Programs and other target-based mechanisms support small hydro. Streamlining planning processes would help increase small hydro capacity, in particular accelerating permitting for small hydro projects. Access to the grid is another bottleneck that policy could help unblock. The EU Water Framework Directive will make it harder for small hydro capacity to expand in the EU, with developers under increased pressure to integrate their schemes into the environment.

Technology Gaps

Hydro is a mature technology, so there are few technology gaps. Improving run-of-river turbines and technologies would improve operating efficiency.

Potential Bottlenecks

The often remote location of remaining hydro resources is a bottleneck, as connection to the grid and/or directly to consumers (as in remote rural locations) is expensive and time-consuming.

Environmental and social resistance to hydro schemes is another bottleneck, particularly as general opinion often does not distinguish between small and large-scale hydro, which is often controversial (such as the Three Gorges Dam Project on the Yangtze River, China).

9. Sugar-based Ethanol

Global ethanol production capacity is 80 billion litres per annum (Lpa), with Brazil and the US the two largest ethanol producers in the world. Brazil has plentiful low-cost sugarcane feedstock, thanks to advanced agri-industrial techniques, which does not jeopardizing food production, and also benefits from strong political support. The Brazilian government has mandated blending for gasoline (currently 25% ethanol), and since 2003 car manufacturers have sold flex-fuel vehicles that can run on any blend of gasoline and ethanol. Ethanol has a 50% market share of the gasoline-fuelled fleet in Brazil, and accounts for 16.7% of the country's total automotive energy consumption.

Sugar cane is the most cost-efficient and environmentally friendly feedstock for ethanol production, with 70-90% fewer CO₂ emissions than gasoline. Brazilian sugar-based ethanol is competitive with gasoline when oil is at \$40-45 a barrel, but ethanol from other feedstocks, such as maize, is not economic without subsidy. During 2009, however, corn ethanol margins in the US and Europe have started to recover on the back of lower corn prices and rising oil prices. Conversely, Brazilian ethanol has become significantly less competitive due to a revaluation of its currency and increases in the prices of both sugar and raw sugar cane, and investment has fallen (see Figure 29).

Policy Status and Gaps

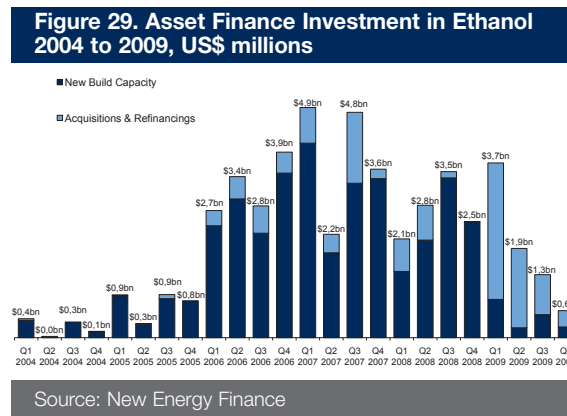
Most countries seeking to promote ethanol use do so by offering subsidies and imposing a minimum blending requirement, although the well-established markets of Brazil and the US now have discretionary blending. In Europe, demand is generally mandated, although a generous subsidy regime in Germany and lower feedstock prices stimulated some discretionary demand in 2009.

Brazilian ethanol production would benefit from legislation to allow ethanol to be traded freely among market players; for gasoline prices to fluctuate in a free market; and for the use of transgenic (genetically modified) cane, currently banned by the Brazilian Ministry of Science and Technology.

Technology Gaps

Sugar-based ethanol is produced from sugar cane juice, but technology is being developed so that all cane residues – leaves, straw and bagasse – can be used for ethanol production, through processes like hydrolysis, which would increase sugar-based ethanol productivity significantly.

Table 12. Sugar-based Ethanol – Economic Overview	
Potential Scale	80 billion Lpa commissioned production capacity Global production estimated to reach 350 billion Lpa by 2030
Market Readiness	Brazilian sugar ethanol is market-ready i.e. competitive in its own right with oil at \$40 - 45barrel
Project Returns	8-15%
Source: New Energy Finance	



Potential Bottlenecks

Import tariffs and local subsidies create a major bottleneck for sugar-based ethanol. Once these are removed, market mechanisms such as hedging instruments and a futures market will help build a transparent global ethanol market.

Another bottleneck is the continued lack of definition of sustainability criteria and methodology used to work out emission reductions from biofuels in the US and Europe.

10. Next Generation Biofuels

In most regions, there is sufficient land to increase biofuels production from the current 3% of transport fuels to 5% without impacting on food availability. But beyond this point, the only way to increase biofuels output will be to use feedstocks that do not compete with food production.

As well as using by-products of other crops, such as wheat straw, sugar cane leaves and forestry waste, crops are being grown specifically to produce biofuels, including jatropha (being trialed in India), miscanthus, and switchgrass. These crops have the added advantage of being able to grow in areas considered marginal for arable use, such as desert areas (jatropha) and very wet land (miscanthus). New technologies have been developed to cope with these more varied feedstocks, including enzymatic hydrolysis and gasification.

Global production of next-generation biofuels is currently small at around 250 million Lpa, or just 0.3% of global bioethanol production. However, production volumes are expected to rise as new feedstocks are grown, technologies are proven and scaled up, and as the cost of production falls. Early-stage investment in next generation biofuels continues to surpass first generation investment (see Figure 30).

Policy Status and Gaps

Policies supporting next generation biofuels are essentially the same as those relating to sugar-based ethanol, including blending mandates, tax breaks, producers' and feedstock cultivation subsidies. The US mandate within the renewable fuel standard for a specific proportion of next-generation biofuels is, however, currently constrained by production capacity. Loan guarantees (such as the USDA Biorefinery Assistance Program) and grants are also encouraging industry development.

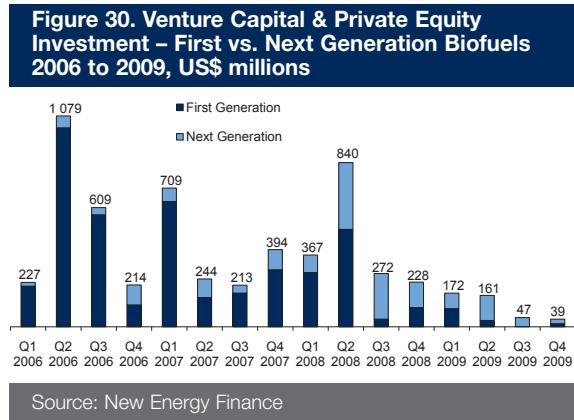
Blending subsidies, in the form of tax breaks, offered to oil companies mixing next-generation biofuels over a reasonably long time horizon (4-8 years), should help reduce operating costs and give farmers, producers and developers a clear incentive to innovate and invest.

Technology Gaps

The key challenge for next-generation biofuels is to lower production costs sufficiently to compete with first-generation biofuels, particularly sugar-based ethanol. Advances using enzymes, bacteria, fungi, heat and pressure to lower biomass conversion costs will move next-generation biofuels closer to cost-competitiveness. Research and development is still focusing on which crops can be grown economically on marginal land, such

Potential Scale	100 mLpa commissioned production capacity currently. Scope for 315 billion Lpa by 2030.
Market Readiness	Some technologies are 4-7 years away from being cost-competitive with fossil fuels
Project Returns	n/a

Source: New Energy Finance



as jatropha in India. Algae-based biofuels are being developed, as a CO₂-positive (i.e. net CO₂ absorbing) fuel which would not compete with land-based food/fuel production. Next-generation biofuel conversion technologies that fit easily and inexpensively into the existing production capacity have the best chance of success.

Potential Bottlenecks

New feedstocks should be compatible with existing processing infrastructure if next-generation biofuels are to be quickly and efficiently absorbed into the existing biofuels market. Specific blending mandates will help create demand, but production volumes must keep up. There are other logistical bottlenecks. Whether first- or next-generation, feedstocks are typically bulky and therefore expensive to transport long distances. Production to the right specification is also crucial.

Appendix 2 – Four Key Enablers

1. Smart Grid

Discussions about the smart grid have moved from the periphery of discussions about future energy supply to its heart. The smart grid is an essential part of any future energy scenario: the world's existing electricity grids simply cannot cope with the increasing diversity of energy sources, many from variable and decentralised renewable resources, and do not allow energy supply and demand to be managed efficiently. With global energy consumption set to triple between now and 2050, intelligent power management will be vital.

Today's grid is not interactive – energy flows from generator to consumer, with no corresponding flow of information about energy prices, demand patterns and so on in either direction. This data flow is essential if we are to manage our energy consumption more efficiently, make the most of energy from distributed sources such as roof-top PV, and tap into the power storage capabilities of domestic appliances and electric cars.

There are many questions about who will build the smart grid, who will pay for it and how long it will take to build. What kind of policy mix will motivate utilities to adopt smart grid technologies and solutions while stimulating innovation, economic efficiency and competition? Trillions of dollars will have to be invested in upgrading and repairing the current transmission and distribution network, and in incorporating interactive elements such as sensors and smart meters. How will consumers respond to the smart grid? Will they find it too complex or intrusive? How will personal data be protected? Will the myriad standards bodies in Europe and the US succeed in defining unified smart grid technology standards that are inter-operable, secure and future-proof? Who will regulate the smart grid?

Many of these questions remain unanswered – but there is concerted action to address them. In June 2009, New Energy Finance hosted the inaugural workshop for the Consortium on Digital Energy, which embodies the huge variety of stakeholders in a smart grid – including utilities, telecoms providers, carmakers, technology developers and regulators – and a diversity of views as to what the smart grid should look like. It also highlighted one of the main challenges to the smart grid becoming a reality; what kind of regulatory and policy mix will motivate utilities to adopt smart grid technologies and solutions while stimulating innovation, economic efficiency and competition? It looks likely that only regulation will drive this investment, but at the moment, most regulators remain in wait-and-see mode.

Smart Meters: Engaging the Consumer

Smart meters work. According to Finnish energy think tank VaasaETT, consumers can reduce their energy use by more than 10% once they are installed and used. According to a Brattle Group survey of pilot schemes in the US, Canada, Australia, and France, when combined with electricity price rises, smart meters allow residential customers to cut their electricity use at times of peak demand by 27-44%.

However, just installing a smart meter is not enough; consumers must want to use it, and must find it relatively easy to do so.

This gap is being filled by new small players like Good Energy Options, which makes a range of in-home displays to get the customer involved with their own consumption, and AlertMe, which has a range of home automation devices. Big players such as Microsoft and Google are also getting involved, offering web-based software to analyse consumption, for use in conjunction with a smart meter or independently.

More research is required to determine whether consumers will respond best to an in-home display, a web portal or simply a fridge magnet that glows red when electricity is most expensive, and blue when it's cheap – but customer engagement is being recognised as a key success factor in the smart grid and energy efficiency.

Source: New Energy Finance

Policy Status and Gaps

Government support is taking different forms. In the US, US\$ 3.4 billion of stimulus funding in the form of grants were awarded in 2009 to 100 smart grid projects, designed to roll out a total of 18 million smart meters. According to the DOE, the total amount of private and public funds that will be invested in smart grid projects through this programme will be US\$ 8.1 billion. The DoE had already granted US\$ 7 billion to two federal-owned power administrations to build transmission that will eventually deliver renewable energy to the US's western states.

Meanwhile the EU has stipulated that 80% of European households should have smart meters by 2020, with 100% coverage by the year 2022. Finland is spearheading smart grid roll-out, with a new law requiring utilities to install smart meters in 80% of Finnish homes by the end of 2013. Sweden completed a near-100% roll-out during 2009, and other Scandinavian countries are taking a lead in smart meter installation. The United

Smart Meters: Engaging the Consumer

Lithium-ion batteries are widely used in computers and mobile phones, and have taken centre stage in electric vehicle development; but they could also be a solution for utility power storage in the future.

Lithium-ion batteries perform well on the metrics needed for power quality management applications, including cycle life, cost and power capacity. They are starting to be used for grid-scale power storage in the US and Chile. They currently cost around US\$ 3 million/MW, but this could fall to around US\$ 1 million/MW with scale.

Given the ever-broadening potential of lithium-ion batteries, sourcing lithium in sufficient quantities and at a reasonable price is vitally important. Chile, China and Bolivia have the world's largest lithium reserves.

However, a new technique developed in the US by Simbol Mining allows lithium to be extracted relatively cheaply, quickly and cleanly from the brine produced in geothermal power plants – extending both the reach and the quantity of lithium available for use in batteries.

There is also the potential for a healthy second-life market for used batteries from the electric car market, although it will be many years before this market has had time to develop fully.

Lithium-ion batteries are in competition with other technologies for grid-scale storage. These include pumped hydro, flow batteries, lead acid batteries, and batteries based on sodium sulphur and other advanced chemistries.

Kingdom is aiming for smart meters to be installed in every house by 2020. According to a recent report published by the United Kingdom's Department of Energy and Climate Change (Smarter Grids: The Opportunity), £8.6 billion will be spent on replacing 47 million gas and electricity meters, with an expected benefit of £14.6 billion over the next 20 years. DECC is providing a £6 million United Kingdom Smart Grid Demonstration Fund to encourage companies to continue developing smart technology such as energy storage.

Preliminary estimates indicate that by 2020, around 200 million smart meters could be operational in Europe and the US, meaning a rosy future for meter manufacturers such as Landis+Gyr (which is providing 150,000 Finnish consumers with smart meters), Itron, Silver Spring, GE and Echelon.

2. Power Storage

The ability to store energy efficiently will open up a wealth of opportunities for low-carbon technologies. Advanced batteries will provide power for electric vehicles and many other mobile applications, while utility-scale storage will allow fluctuations in electricity demand to be smoothed, generation to be managed to meet varying demand, and intermittent renewable generation to be accommodated.

Large-scale power storage has traditionally been in the form of pumped hydro, but technological advances will open up a vast new decentralised source of energy in the form of electric cars, whose power reserves can be tapped into during peak demand, and replenished when demand falls.

The most obvious form of energy storage is on the demand side is batteries, commonly used to power mobile, portable and remote devices from computers to cars. Electric vehicles are a Holy Grail for battery developers, although even the likely earlier take-off of plug-in hybrids offers a very substantial market.

Finding a solution for grid-scale power storage is becoming increasingly urgent for utilities. At grid scale, power storage has two main applications: energy management, where stored energy is used to provide additional supply when demand rises; and power quality management, where short sharp bursts of energy are used to stabilise the grid by smoothing out irregularities in supply or demand. Technology improvements and increased government support for advanced batteries, ultra-capacitors and other technologies could push the grid storage market from a projected US\$ 1.5 billion market by 2012 to US\$ 8.3 billion by 2016⁵.

Developing advanced batteries is a priority for grid-scale energy management; dominant technologies include lead acid and sodium sulphur batteries (using conventional battery design, with chemicals stored inside the battery) and flow batteries (also known as reversible fuel cells, where the chemicals are outside the battery), most commonly using zinc bromide and vanadium redox. Sodium sulphur batteries are by far the most widely used battery for energy management: flow batteries are still very expensive, and the current generation of lead acid batteries, while much cheaper, are less robust and have a short life.

Technology Gaps & Bottlenecks

Battery technology developments currently being pursued include shortening recharging times, extending life, making portable batteries lighter and more compact and reducing cost.

On the power quality management side, flywheels and ultra-capacitors are relatively new technologies used to balance short-term grid fluctuations. Flywheels store power as kinetic energy, while ultra-capacitors store it as electrical energy. Flywheel technology has been proven at utility-scale, and commercialisation could halve its capital costs from US\$ 1.5 million/MW currently to US\$ 0.75 million/MW. Ultra-capacitors are a promising technology, but remain expensive and not yet proven at scale.

⁵ NanoMarkets report: "Batteries and Ultra-Capacitors for the Smart Power Grid: Market Opportunities 2009-2016"

3. Advanced Transportation

Transport accounts for more than 27% of all final energy consumed (8,286 Mtoe), according to the International Energy Agency, and 23% of global CO₂ emissions. The transport sector is almost entirely reliant on oil to fuel it (94%). Oil accounts for 43% of global energy consumption, of which 61% is consumed in transport. The scale of the problem (and therefore the opportunity) has propelled advanced transport into the limelight. If only 10% of the global fleet were to consist of electric vehicles, this market will be worth US\$ 300 billion in 2020 for the cars alone, with batteries an additional US\$ 100 billion and the lifetime mileage worth an additional US\$ 250 billion, according to the US Department of Transportation's Research and Innovative Technology Administration. Every major car manufacturer has an electrification programme and by 2012 there should be 119 types of electrically powered cars available globally, including 37 full EVs.⁶

There are multiple technologies looking to improve transportation efficiency: mass transit, biofuels, artificially-synthesized fuels, improvement to the internal combustion engine and fuel cells. The dominant technologies are plug-in vehicles - both plug-in hybrids (PHEVs) and full battery electric vehicles (BEVs). Non-pluggable hybrid vehicles (NPHEVs), such as the Toyota Prius, are near-term solutions that are easier to deploy than plug-ins, but they are not as efficient nor do they offer the impact of switching to a cleaner primary fuel. Even powered by old coal plants PHEV represent a 25% reduction in emissions.⁷ The critical enabling technology for vehicle electrification has been lithium-ion batteries, giving electric cars minimum ranges of 100 miles and top speeds of at least 90mph.

Policy Status and Gaps

Electric vehicles are a nascent industry being accelerated by government support. The Boston Consulting Group has estimated that up to November 2009 governments had pledged over US\$ 15 billion to support the electric vehicles ecosystem. Examples of this support include direct vehicle subsidies (e.g. US\$ 7,500 in the US, 5,000 euros in France, 60,000 rmb in China), support for battery manufacturing (e.g. US\$ 650m+ that A123 has received in grants, loan guarantees and state incentives in the US) and infrastructure (France has pledged 1.5 billion euros). This is all in addition to tax incentives. In Denmark, there is a 170% registration tax on gas-powered vehicles. In Israel the sales or value-added

Electric Vehicles – A Cost Comparison

Gas Miles

According to the US Department of Transportation the average fuel economy in the US passenger car fleet is 22.5mpg. Gas prices around the globe tend to vary widely and can be put in the US\$ 3–9 per gallon range and rising, given the 19% drop in global upstream oil investment (IEA). This results in a fuel cost per mile of 13 to 40 US\$ cents, after the impact of government taxes or subsidies.

Electric Miles

The current technology for electric motors is highly developed for reliability, but less well-developed for power-to-weight and efficiency than the internal combustion engine. Current electric vehicles are getting 5 miles per kWh. Assuming a cost of 11 US\$ cents per kWh that is equivalent to a fuel cost of 2.2 US\$ cents per mile. However, the disparity in upfront costs for electric vehicles, with their expensive batteries, must also be included in the cost per mile. Batteries can be depreciated over their useful life (2500-4000 charge cycles on average taking just under nine years). This results in a depreciation cost of around 9 US\$ cents per mile, for a total electric mile cost of around 11 US\$ cents per mile.

vehicle tax is lowered from 78% to 10% for electric vehicles. Any and all gas taxes can also be seen as support for EVs. The political wildcard is the introduction of regulatory emission/fuel economy standards. European and Japanese governments have proposed emissions standards with punitive financial penalties that car companies are unlikely to be able to meet without sizable EV penetration. If passed, and matched by US-based legislation, this legislation will ensure meaningful EV deployments by 2020.

Electric vehicles' role in a low-carbon future goes beyond pure transport – many experts see mass penetration of electric vehicles as the key for higher levels of renewable energy generation, and the most powerful driver for a smart grid. The amount of power realised from renewable sources fluctuates widely on a daily basis. This prevents renewables from participating in baseload power generation. Another impact of the variability in supply is

⁶ Deutsche Bank Nov 3, Electric Cars: Plugged in 2

⁷ EPRI

that unexpectedly large yielding days produce power that gets wasted. Electric vehicles are a solution to this problem as they act as distributed large scale storage devices. Current utility scale storage solutions come in 2MW increments; 50,000 EVs would offer 1GW worth of storage, 500 times that amount. The benefits to the grid are that EVs provide load by levelling night-time electricity demand. However, at present the cost of a battery cycle for Lithium-ion batteries makes vehicle-to-grid prohibitively expensive. As we build towards meeting RPS standards there is a strong symbiotic economic argument for the parallel deployments of renewables and electric vehicles.

Technology Gaps & Bottlenecks

Widespread EV adoption faces three roadblocks that need to be addressed (i) infrastructure; (ii) psychological barriers/range extension; and (iii) availability and cost competitiveness of vehicles.

The infrastructure for gas powered cars has been built up over the past 100 years. Electric vehicles need plug-in infrastructure and a smart charging network that protects grid integrity through local load management. Pragmatically infrastructure will need to be inter-operable among regions and OEMs, as the alternative is impractical from a cost and functionality standpoint.

Over 80% of people travel less than 40 miles per day, well within the 100-mile range offered by today's EVs. The want for range tends to far exceed the need, and range extension is an issue common cited by EV opponents. As batteries improve and EVs become more prevalent this will subside, but in the near term it must be addressed. PHEVs are a form of range extension. The issue is that enabling gas extension limits the electricity range and benefits of EVs. An alternative is battery swapping, which has all of the EV benefits and can be done in less than sixty seconds but has a high infrastructure cost. A third is fast charge, which takes at least 15 minutes in charge time, can not be operated by the driver and places stress on the grid, as opposed to charging at the home or office.

The availability of electric vehicles is a bottleneck: there has been limited number of electric vehicles available and the ones that are on the road, like Tesla, are not for a mass audience. This will change with the Renault Fluence ZE in 2011, which will be mass produced and has commitments for 150,000 units. Electric vehicles have a perception issue on cost competitiveness. The cost for EV and gas powered is equivalent except for the battery. From a total cost of ownership perspective, EVs are cheaper as the lower cost per mile more than offsets the upfront costs of the battery.

Electric Vehicle Infrastructure – Better Place

Better Place's vision is to be an electric vehicles solutions provider that ensures that we can confidently drive an EV anytime, anywhere. Better Place is developing and deploying EV driver services, systems and infrastructure. Subscribers and guests will have access to a network of charge spots, switch stations and systems which optimise the driving experience and minimise environmental impact and cost.

Most cars will be charged at home, overnight, in some cases taking advantage of "time of use" metering to avoid mass simultaneous recharging leading to grid overload.

The vision is not without its challenges, notably is the high capital cost in the Catch 22 scenario where infrastructure needs to be built in advance of cars being on the road. Bespoke / proprietary batteries are also a potential barrier to battery exchange.

Nevertheless, Better Place is gaining momentum. In 2008, Israel became the first nation in the world to commit to an all-electric car infrastructure, followed by Denmark. Both have since begun installing Better Place charging stations.

In March 2008, DONG Energy, Denmark's largest power generator, signed an agreement with Better Place, under which DONG wind energy will be used to power Better Place cars.

The problem is that consumers currently disassociate acquisition costs from ongoing costs. Project Better Place, as well as building electric car infrastructure, is addressing this challenge by purchasing the batteries in place of consumers. They will help transform car purchases to a mobile phone model where the upfront cost is subsidised in exchange for a fixed term service agreement.

4. Carbon Capture & Storage (CCS)

In a world dependent on coal for its energy for the foreseeable future, technology that captures and stores the CO₂ emissions has an important role to play in the shift to a low-carbon energy future. Industrializing countries, notably China, have rich domestic coal reserves that will be used to support economic growth, especially as other energy resources elsewhere in the world diminish and fuel prices rise.

New Energy Finance expects demand for CCS to reach 160-240MtCO₂e/year by 2020, equivalent to the emissions from 26-44 coal-fired power stations or 8-12% of emission reductions under global emissions trading schemes. This is 7-11 times greater than current levels – but at current development rates, CCS will only be ready to inject 95MtCO₂e/yr in 2020, even assuming that the necessary funding (around US\$ 80 billion) is made available.

CCS is an early-stage technology. While it can be profitable in some cases, for example when combined with enhanced oil recovery (EOR) or where a levy on CO₂ emissions is in place (such as in Norway), adding CCS to conventional power generation projects does not currently make economic sense. Using the technology available at the moment, CCS increases the plant's overall costs by as much as 85% and significantly reduces its overall efficiency because of the extra energy required to run the capture equipment.

CCS may be expensive, but so is the cost of not developing it. The IEA's recently released Technology Roadmap for Carbon Capture and Storage suggests that without CCS, overall costs to reduce emissions to 2005 levels by 2050 will increase by 70%. To achieve the necessary emission reductions, the IEA suggests that 100 projects should be developed globally by 2020 and over 3000 projects by 2050. This level of development would need additional investment of US\$ 2.5-3 trillion between 2010 and 2050.

Before CCS can begin to fulfil even this potential, scaled-up demonstration projects must be built – and as yet, none have. New Energy Finance is currently tracking 238 projects in 27 countries, of which 42% are commercial, 29% pilot, 21% R&D/academic and 8% demonstration. Most of these are in the US, but 41 commercial-scale projects have been announced in the EU. The costs involved – US\$ 1-2.5 billion for 100-300MW plants or US\$ 57-91/tCO₂e avoided – are prohibitive in these tight economic times without any clear market incentives. The bottom line is that it is far more expensive to use CCS to deal with a tonne of CO₂ than it is to buy carbon credits on the ETS, even on the most aggressive price estimates.

Table 15. Carbon Capture & Storage – Economic Overview

Potential Scale	21.4 MtCO ₂ e injected in 2009, equivalent to CO ₂ capture from 1.4GW generation. Demand could reach 160-240MtCO ₂ e/year by 2020
Market Readiness	The viability of CCS is entirely dependent on the existence of the carbon markets and CO ₂ price
Project Returns	n/a

Source: New Energy Finance

Funding for the first demonstration plants must therefore come directly from governments if CCS is to scale the gaping “Valley of Death” currently lying between it and commercialisation.

Policy Status and Gaps

Key drivers for CCS include national and/or regional emissions standards; subsidies that help bridge the gap between the current cost of CCS and the time when it becomes economically viable; and carbon trading systems, which put a transparent value on CO₂ emissions and allow emitters to capitalise on reducing their CO₂ emissions.

Governments are making commitments to CCS projects. The G20 has a goal of 20 demonstration projects by 2020. The European Commission intends to facilitate construction of 10-12 demonstration projects, and the United Kingdom has said it will back four CCS demonstration plants, while mandating that all newly built coal plants demonstrate CCS technology on at least 300MW of their net capacity. The EU has so far committed just over 8 billion euros (US\$ 11.9 billion) to CCS, funded by EU ETS' New Entrants Reserve, EU member states and the European Economic Recovery Plan. The US, Canada and Australia have also outlined plans to build large-scale projects. In June 2009, the US resuscitated the previously abandoned FutureGen project to build a 275MW CCS-equipped Integrated Gasification Combined Cycle (IGCC) plant. Under its clean energy stimulus plans, the US has pledged US\$ 4 billion, Canada US\$ 2.6 billion and Australia US\$ 6.4 billion to CCS.

However, these commitments only close a small amount of the funding gap, estimated to be US\$80 billion between now and 2020. This early-stage gap will probably be plugged by further direct government funding either in the form of grants or incentives combined with

investment from those in the private sector who stand to benefit most from CCS (or lose most by not dealing with their CO₂ emissions), such as companies in the oil & gas and utility sectors.

Once the first demonstration projects have been built, other forms of financing will be needed. Later projects could be funded via levies on electricity or fossil fuel production (effectively a direct tax on those producing the CO₂ that CCS is designed to address), and ultimately CO₂ financing where market incentives (carbon credits) would attract private sector investment. Carbon prices are expected to rise to a suitable level to achieve this in Europe by 2020, and subsequently in other countries.

Technology Gaps & Bottlenecks

The big challenge for CCS is establishing its technical and economic feasibility. Once a stable carbon price is in place and CCS is viable on a large scale, the industry will take off. As the most expensive part of the CCS chain, carbon capture is a focus for research and development investment.

Technological improvements could reduce the cost of CCS by 50%, to US\$ 30-60 per tonne of CO₂e in the medium to long term. However, the cost is likely to rise in the short term as capture technologies are scaled up for the first time and need optimization.

Within the overarching goal of cutting costs, technology is needed to understand the long-term behaviour of CO₂ in different subsurface geological environments. The goal of this research is to certify that CO₂ injected will be stored safely and securely over geologic time, and to ensure proper credit can be given to those that store, rather than emit, CO₂. Research on the storage of CO₂ is also designed to win public acceptance of CCS.

Identifying sites suitable for CO₂ storage, where injection points can be made, is a key bottleneck. Although there are enormous potential global reserves for CO₂ storage, the number of sites suitable as actual injection sites is considerably less.

Building a CCS infrastructure is another potential bottleneck. If a CCS industry is to take shape, it will be necessary to build thousands of kilometers of CO₂ pipeline to go from source to sink, or to connect to a CO₂ pipeline network. Some 90% of all installed CO₂ pipelines are in the US, although 81% of announced CCS projects are in other countries, highlighting the scope for investment in building CO₂ pipelines.

CCS Technologies

CCS technologies fall broadly into two categories; pre-combustion and post-combustion capture.

The main attraction of **pre-combustion capture** is that it first converts the fossil fuel feedstock to a gas, largely composed of CO₂ and H₂, where the CO₂ can be captured quite easily, and water is the only by-product. Pre-combustion technology, largely referred to as IGCC (integrated gasification combined cycle), is favoured for several planned large-scale CCS demonstration projects, including FutureGen, due to the relative ease and low cost of capture. IGCC plants, however, suffer from high up-front capital costs and process complexity. Furthermore, they are mostly only suitable for new-build applications.

Post-combustion capture, on the other hand, can be retrofitted to many existing global fossil-fuelled power and industrial plants, reducing the capital cost of the CO₂ capture facility. The trade-off, however, is that since the concentration of CO₂ in the flue gas of existing power stations is only 13-15%, CO₂ capture is more expensive and energy-intensive than in IGCC. New Energy Finance is tracking approximately 200 research projects aimed at developing new technologies to improve capture efficiency and decrease the cost of post-combustion capture.

Drawing on the best of both pre-and post-combustion capture, **oxycombustion** is a third technology that is gaining ground and could be a game-changer. Here, the fossil feedstock is combusted in a pure O₂ boiler. The extremely high temperature lends efficiency, while the combustion flue is 85% CO₂, making for easy capture. Oxycombustion can be used in new builds or repowering; its major challenge is decreasing the energy penalty and the cost of O₂ purification.



Appendix 3 – Most Common Market Policy Mechanisms

Market mechanisms to encourage investment in generation capacity can be tailored to individual countries and electricity markets, with the lessons learnt in one market readily transferred to another.

Feed-in tariffs are probably the most widely-recognized clean energy market mechanism, and have successfully stimulated investment in several European markets. Renewable Portfolio Standards, which set out a minimum percentage of energy to be sourced from renewable generation, are also widely used. RPS structures boost investment in clean energy, although they are a blunter instrument than feed-in tariffs. Auctions, where long-term electricity supply contracts are offered to renewable generators in a competitive bidding process, are another mainstream energy market mechanism.

The interaction between market forces and policy and financing mechanisms must be carefully managed if the right effects are to be achieved.

Feed-In Tariffs

Feed-in tariffs stimulate investment in renewable energy generation by guaranteeing power prices of up to five times the average spot rate for electricity, depending on the technology used. Solar, for example, generally receives a higher rate than wind because it is more expensive. Feed-in tariff programmes usually run for 20-25 years and are indexed to inflation.

Financiers like feed-in tariffs because they allow clear cash flow forecasting on the back of a guaranteed floor price for electricity generated, while their stability and generosity are appreciated by the renewable energy industry. Feed-in tariffs are also relatively simple and scalable. They have put Germany and Spain second and third respectively in terms of installed wind capacity globally, and made Spain a world leader in installed PV capacity.

The momentum behind feed-in tariffs continues to build. During 2009, many countries introduced (or announced) feed-in tariffs, including China, Greece, Finland, South Africa, several Indian states and parts of Australia. In October 2009, Ontario introduced a generous feed-in programme under which renewable developers can sign 20 year power purchase agreements with the province for CAD 103-820/MWh, combined with a fast-track permitting process.

However, feed-in tariffs are not without their downsides. One is their cost – someone has to pick up the bill if handsome benefits are to go to equity investors (who have been earning returns of up to 20% in Spain), project developers and manufacturers.

Spain introduced feed-in tariffs for solar photovoltaics in 2003, on the back of its established feed-in tariffs for wind,

which propelled it into third place worldwide for installed wind capacity. In 2008, 3GW of PV was installed in Spain, more than was installed worldwide in 2007, rapidly approaching the national installation cap of 4GW set by the Spanish government at the programme's outset.

In February 2009, Spain renewed its feed-in tariff for a further three years, but cut to 32-34 eurocents/kWh from 45 eurocents/kWh, declining each quarter and with a national cap of 500MW per year, increasing only slowly. There followed a damaging period of uncertainty as politicians dithered over whether to renew the tariff in a less generous form or cut it altogether.

The total cost of renewable capacity installed under the feed-in tariff programme to date – 3.3GW of photovoltaics, 5.5GW of wind and a small amount of biomass and solar thermal generation – will be 53 billion euros over the 25-year life of the tariffs, or 39.9 billion euros net of the avoided cost of alternative sources of power. This liability, equivalent to 13% of the country's cumulative national debt of 423 billion euros in June 2009, will be funded by Spanish taxpayers – and will rise as projects are added under the renewed feed-in regime.

In liberalised electricity markets, the additional cost is passed through to consumers. In Germany, feed-in tariffs for wind (9.3GW), solar (4.8GW) and biomass (2.7GW) projects built between 2004 and 2008 will cost electricity consumers 122.3 billion euros between 2008 and 2030, equivalent to 55.7 billion euros more than the cost of generating electricity from cheaper sources and adding 0.6 eurocent/kWh to each electricity bill. These are the costs of the feed-in tariffs to date, but as renewable capacity increases, so will the liabilities associated with them.

Auctions

Auctions have been used in various countries to encourage specific forms of clean generation capacity to be built. The process can be used in conjunction with other incentives, such as tax breaks and/or government grants. Auctions have several advantages: for example, governments can specify that winning bidders must source a certain proportion of their components from domestic manufacturers, boosting the local economy. Another advantage is that the competitive process allows market forces to determine electricity pricing, even though governments may choose to tip the playing field using other mechanisms. However, auctions tend to work best where the state plays an active and almost autocratic role in electricity supply, rather than in deregulated markets, such as those in some advanced developing countries.

China used a competitive auction system for wind between 2003 and 2007, in which developers bid for projects on the basis of long-term tariffs. Following criticism that competitive bidding was damaging the country's wind industry, the process was refined so that the lowest bidder did not necessarily win, if it might put the project's success at risk; towards the end of the process, bids closest to the average were generally successful. China has now reverted to a feed-in tariff for wind, and will introduce one for solar too, but auctions gave it a long period of price discovery, which will allow it to pitch its feed-in tariffs at a sensible level. The new tariffs are higher than most winning national concession bids, but are at the same level as the non-concession projects approved in 2007 and 2008.

Brazil is moving in the opposite direction to China, expanding its auction programme for power generation projects and biodiesel supply. In 2007, Brazil ran a one-off auction for renewable energy which attracted bids from nine wind farms, 54 small hydro projects and 24 biomass projects – but all the contracts were taken up by cheaper biomass and small hydro projects. Now, following strong interest from wind developers, the government has announced that it will hold one or two wind-only auctions a year, the first of which is due to take place in December 2009. In July, energy regulator EPE reported that 441 projects representing 13.3GW of installed capacity had registered to take part in the wind tender. It is unclear how much capacity will be contracted, although expectations are that power purchase agreements worth between 800MW and 1.2GW will be available.

California has recently proposed a "reverse auction" feed-in tariff, designed to reduce the ability of developers to make windfall profits by selling the electricity they produce at artificially high rates. In August 2009, the California Public Utilities Commission suggested letting developers bid on contracts to install green energy projects. A solar company that offers to sell electricity to one of California's three big utilities at a rate lower than its competitors would win a power purchase agreement. The scheme could be operational in 2010, if it meets with no serious opposition.

Renewable Portfolio Standards (RPS) / Green Certificates

The aim of Renewable Portfolio Standards (RPS) is to accelerate the integration of renewable energy by requiring electricity supply companies to source a specific percentage of their power from renewable sources. Currently, many RPS regimes are voluntary rather than mandatory.

Renewable Portfolio Standards have been adopted in the United Kingdom, Italy and Belgium as well as in 29 US states (collectively accounting for over half the electricity sales in the US) and the District of Columbia. A further six US states have non-binding goals for the adoption of renewable energy. President Obama has made a national RPS a cornerstone of his energy strategy, advocating that 25% of electricity be generated from renewable sources by 2025.

RPS policies seem to have been successful in encouraging new renewable development in certain parts of the US. Between 1998 and 2007, an estimated 8,900MW of new non-hydro renewable capacity was built in states with RPS policies. However, it is impossible to prove that RPS policies were the only driving factor, and RPS instruments have been most successful where they have been used alongside the federal Production Tax Credit (PTC). When the PTC has been withdrawn, RPS structures alone have not always managed to maintain the same level of renewable capacity addition.

RPS regimes work hand-in-hand with green certificates, which are earned by certified renewable energy generators for each MWh of clean power they produce. Electricity companies can buy green certificates to fulfil their obligations under the RPS, as it is not always practical for them to buy clean energy directly from a renewable source, because of availability, grid connections, and so on. Green certificates have a variety of different names; for example, Renewable Energy Certificates (RECs) in the US, and Renewable Obligation Certificates (ROCs) in the United Kingdom.

The main advantage of the RPS is that it is a market-based system, so it allows competitive forces to promote the most efficient forms of renewable generation rather than picking technologies. It paves the way for market-ready (or nearly commercial) renewable technologies to break into the electricity market and from there achieve economies of scale and efficiency improvements more quickly than otherwise. It also introduces competition between renewable generators, favouring those that can produce electricity most cheaply.

On the downside, though, many Renewable Portfolio Standards are not yet mandatory, so electricity suppliers are not penalized for failing to meet the targeted proportion of renewable energy. RPS policies are therefore rarely enough on their own to maintain significant investment in clean energy, and are best used in combination with finance mechanisms such as tax credits.

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