

Press release

For business editors
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Commerzbank: Renewable energies set for worldwide growth with decreasing costs

- **Intact growth in the wind energy market**
- **Competitive bidding puts remuneration rates under pressure**
- **New market instruments changing financing environment**

Today in Hamburg, Commerzbank presented its market assessments of the wind energy market, ahead of Wind Energy Hamburg, which takes place from 25 to 28 September 2018. "We continue to observe a robust global expansion in renewable energies with a further decrease in production costs," is the conclusion drawn by Berthold Bonanni, head of the Energy unit (CoC Energy) at Commerzbank AG.

The production of wind energy has experienced annual growth from 2015 to 2017 seeing an increase worldwide of 11% p.a., from 128 to 157 gigawatts (GW). In contrast, the investment costs for the same period fell by 7% p.a., from \$323 billion to \$280 billion. Bonanni added: "The trend of a decline in production costs continues unabated, it is largely driven by the transition to competitive bidding systems which determine the size of fixed remuneration rates."

Regionally, Commerzbank forecasts strong annual growth in the Asia-Pacific region, and in particular in the offshore sector. In contrast, it is expected that Germany will see a brief decline in 2019, however growth of the onshore wind sector in Germany is expected to normalise from 2020.

Competitive bidding

The global trend of competitive bidding procedures puts pressure on remuneration rates. For example, the number of countries which utilise competitive bidding has increased from 64 in 2015 to 84 in 2017. In the EU this has been mandatory since 2017. "In our experience competitive bidding leads to lower remuneration rates because pricing is closely linked to the decline in production costs," observes Bonanni.

Financing conditions

A decline in the size of remuneration in conjunction with an expected rise in electricity prices would increasingly bring renewable energy assets towards the threshold for price competitiveness (grid parity). If auction prices converge towards current market price levels, private power purchase agreements (PPAs) will become increasingly attractive. This transformation, which has already been observed in a number of markets, is also changing the financing conditions, as the financing is no longer based on government guarantees but on market-based instruments. "The consequences of this paradigm shift," says Bonanni, "are currently still uncertain. However, the shift is an important element in the integration of renewables in the energy markets. This raises the question of how the risks from market economy-based project financing could be shared among the market participants."

Commerzbank AG, with its Center of Competence Energy (headquarters in Hamburg), is one of the leading financiers of renewable energies with a loan volume of around €4.5 billion in project financing and around €0.7 billion in corporate financing. Commerzbank has financed ca. 15% of the wind capacity in Germany to date.

Press contact

Thomas Kleyboldt +49 173 2477706

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