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Benefits and Challenges of Renewables Infrastructure Investing in the Caribbean

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Renewable energy is on the path to becoming an important source of energy. Many governments have committed providing the regulatory framework and incentives for the build out of alternative sources of energy like solar farms and wind parks.

We are witnessing a paradigm shift from the traditional energy sources to renewables. Indeed, renewable energy may become the main source of efficient energy over the next ten to twenty years.

Additionally, as innovations in cost-efficient technology unfold, corporate and customer purchases are shifting more toward renewable energy in the emerging markets, where the price of electricity is extremely high, given their dependency on fossil fuels and lack of infrastructure.

For investors, renewable energy infrastructure also produces a steady yield over a long period of time, paired with limited technology and construction risk. Renewables have a limited correlation to other assets, especially because they do not rely on fluctuating commodity prices. Generally, revenues are inflation adjusted.

Investors have been quick to see the opportunity, driven by increasing demand for clean and cost-effective energy. More than half of 2,378 major infrastructure deals, worth an estimated £916 billion, were in renewable energy, a 9% rise since 2017, according to Preqin. As interest from investors



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continues to rise, concern over the increasing competition for assets and prices of assets rises with it.

The challenge for investors is differentiating between the various renewables infrastructure projects for the most opportune undertaking. Niche sectors within renewables infrastructure, such as certain emerging markets, can offer unrealized benefits, mainly from being less competitive than other areas such as mature markets infrastructure.

The need for renewables infrastructure investing in the Caribbean

Caribbean islands, which largely depend on imported fossil fuels such as diesel, have some of the world's highest electricity prices. Renewables in the Caribbean contribute to less than 10% of electricity production, according to the World Bank. Many countries in the Caribbean spend more than 5% of their income on oil imports but still cannot fully satisfy customer demand. In 2016, electricity prices around the region averaged over US \$0.25 per KWh, about three to four times more than what is paid in developed nations like the United States.

The Caribbean has also experienced recent hurricanes, which have left unprecedented devastation across the region. The impacts of Hurricane Irma and Maria on energy systems in Puerto Rico and elsewhere in the Caribbean highlight a decade-old energy security issue.

As hurricanes are frequent in the regions, the environmental impact of conventional power generation has caused increasing awareness of the necessity of sustainable energy which leads to favourable legislation and strong support from local authorities.

Other considerations include the engineering, design and location of the project. During recent hurricanes in the Dominican Republic and Puerto Rico, most renewable energy assets were actually some of the least affected infrastructure assets on the island, because developers made sure that they were built in such a way to survive these events. Location should be considered as another key factor. In Jamaica, for example, hurricanes typically tilt away from the west coast, so projects there see higher natural protection.

Given solar and wind resources and merchant power prices in the region, the cost of renewable energy is competitive with conventional power sources. Renewables infrastructure can help reduce prices in the long-term, as renewable and sustainable energy resources can replace pre-existing non-renewable models. However, it will also require building out the grid infrastructure and adding storage facilities to provide firm and dispatchable capacity. Hereby distributed generation will play a crucial role in the decentralized future of power generation matching demand and supply locally lowering the overall impact on transmission.

An unprecedented drop in the cost of producing clean energy has occurred over the last several years. For emerging markets, low-cost equipment is an enticing perk, as cost consciousness is a high priority. The cost of production for both solar farms and wind parks has gone down and will likely continue to decline over the next decade. Since renewables are becoming affordable, the use of renewable energy continues to provide new solutions for mobility and energy security worldwide.

Managing political risks and partners

Local governments in the Caribbean have realized the need for major infrastructure rebuilding in the wake of these highly-destructive hurricanes. Jamaica, for example, is planning to invest in and have 30% of its energy consumption come from renewables, by 2030.

There is more support from local governments for the private sector to play a greater role in the funding and project management. When investing in the emerging markets renewable infrastructure, it is important to make sure that investment is in sync with the country's needs.

Additionally, transparency and trust are key to executing a successful operation in emerging markets. Delivering milestones in a timely and efficient manner can help build that trust. Project planning should maintain a continuous open dialogue with the local community and government. Most renewable energy proposals won't move forward unless all parties are aware and involved. Renewable energy companies and developers should seek to use local labour and contractors which will build trust, boost the local economy, and provide hands-on experience with renewable energy development.

For a niche sector like renewables infrastructure in emerging markets, it is key to work with an experienced manager that has the in-house expertise to identify the right projects and the experience to work across the life cycle of the asset and its changing risks and needs.

The manager must structure the equity and debt financing, which often involves complex co-investing agreements, but must also offer expertise with local and national regulatory affairs and in the project

management, from construction through to long-term operation of the facility.

So, while renewable energy continues to accelerate its growth worldwide, there is also a responsibility to ensure that progress is made in the right way. Renewable energy projects offer solutions to long-standing challenges in the region by sustaining environments and making access to electricity reliable, affordable, and easier to restore after national disasters. To power the world, industry leaders and policymakers must continue to innovate and remain forward thinking. Energy is more than turning lights off and on – it's about improving quality of life.

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