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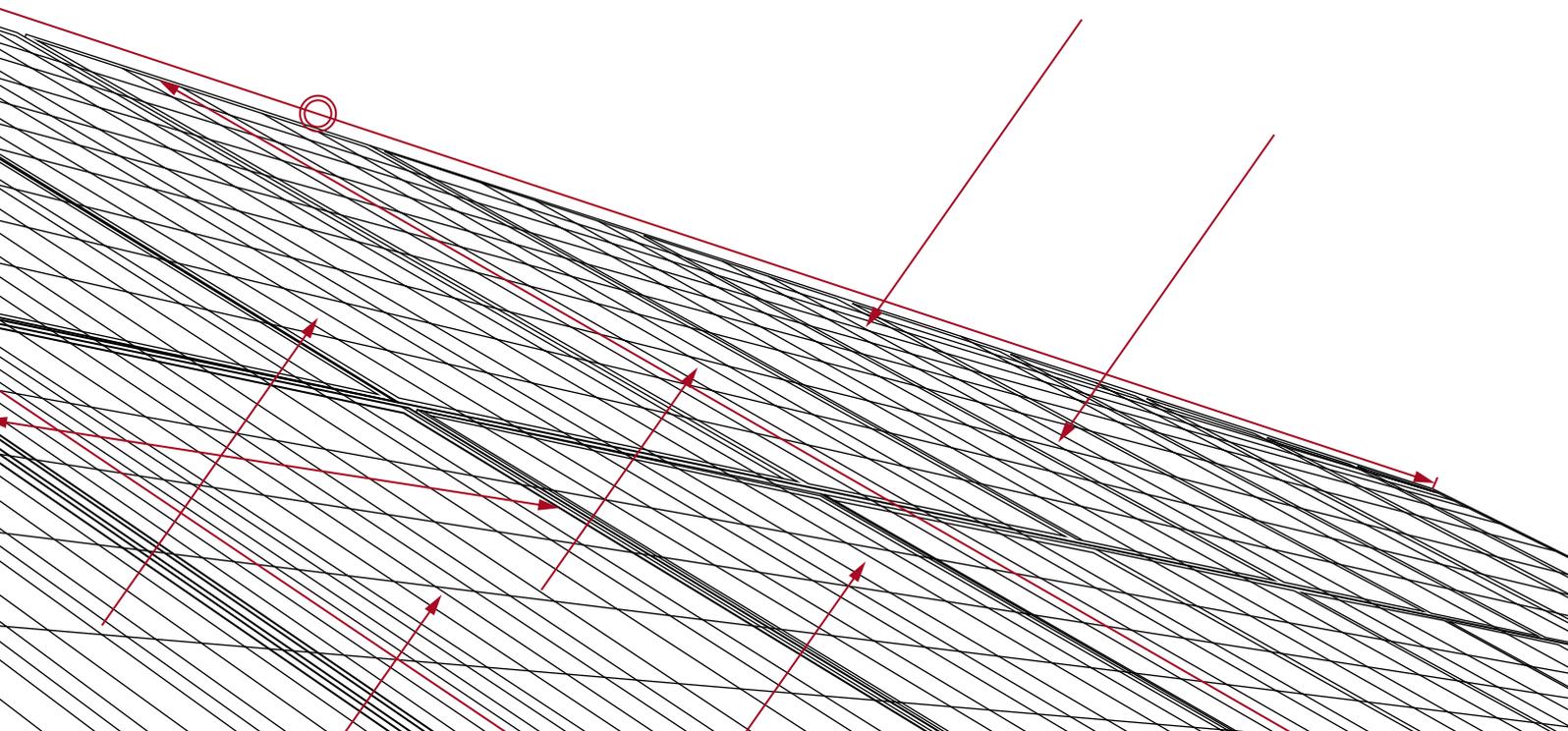
PERSPECTIVE RENEWABLE ENERGIES



MICHAEL EBNER
MANAGING DIRECTOR FOR INFRASTRUCTURE
KGAL INVESTMENT MANAGEMENT

GERMANY IN A DILEMMA

As a pioneer of climate policy, the Federal Republic of Germany had unmistakably started on the energy transition at latest by the year 2000, with the introduction of its Renewable Energy Sources Act. Since then, the country has fallen so far behind that it is unlikely to reach the 2020 target stated in the EU climate change package. Germany's goals are to reduce greenhouse gas emissions by at least 40% from 1990 levels, and to increase the share of renewable energies in consumed energy by 18%. The intentions were good, but mismanagement and difficult framework conditions have prevented the achievement of demonstrable results. The causes for this are both natural and man-made.





Germany is densely populated and is not blessed with wide open spaces or natural resources for power generation such as wind, sun and water. These factors mean it is fundamentally difficult to find large and efficient areas on which to operate solar or wind power plants. The use of hydropower has already reached its limits. This is compounded by high infrastructure costs that – despite dramatic reductions in the cost of technology – mean it is not possible to generate sufficient renewable energy to cover costs in the current highly competitive environment.

Regulatory assistance in the form of fixed feed-in tariffs triggered an initial boom – albeit at enormous cost to consumers. However, the sector then developed more dynamically than the legislature could accommodate for, with the result that renewable energy projects were not efficiently executed and some were overfunded, making them expensive by international standards: in extreme cases, a wind power plant in Germany could cost twice as much as an installation elsewhere. Only a few benefited from this situation, specifically landlords who were able to attain high percentage leases, and developers who were able to sell projects to long-term investors at top prices in a secure environment.

It was expected that the switch from fixed feed-in tariffs to a tendering procedure would correct earlier mismanagement, but here too the regulator intervened excessively: with the aim of achieving greater regional buy-in, the German Renewable Energy Sources Act provided simplified procedures for local citizen-owned energy companies. The result was that 90% of contracts in the initial tenders were awarded to these types of companies, at record low prices. However, the projects often lacked professional planning, and cost calculations were too low. Furthermore, approval processes were not completed, with the result that implementation has stalled. In the meantime, the number of newly established solar and wind power plants has plummeted. One side effect is that the economic existence of many manufacturers and service providers in the renewable energy sector is in danger because of this regulatory rollercoaster, and their disappearance essentially wipes out the competitive component of the new tender model. The goals of the energy transition are no longer achievable.

The regulator has fallen short of its target, but the model also cannot function in the described environment without regulation. We need a new way of thinking. Renewable energies need to prove themselves in the market, but they must do so in a fair environment. The CO₂ tax currently under discussion is a step in the right direction.

I am convinced that renewable energies are capable of holding their own in the current price environment, provided that fossil-fuel competition – with all its external costs – is required to compete at full cost. So far, these effects – whether greenhouse gas emissions, final storage costs or direct subsidies – have distorted competition. We need a level playing field.



»HAS THE GERMAN RENEWABLE ENERGY SOURCES ACT OVERSHOT THE MARK?

»RENEWABLE ENERGY PROJECTS ARE SUFFERING FROM UNEQUAL COMPETITIVE CONDITIONS!

»CO₂ TAX COULD BE THE SOLUTION.

A landscape photograph showing a green field in the foreground, rolling hills in the middle ground, and several wind turbines in the distance under a blue sky with light clouds. The sun is visible on the right side of the horizon, creating a bright glow.

“CLAIM MANAGEMENT IS HARD WORK, BUT IT’S WORTH IT!”

Biologists and farmers, engineers and lawyers: KGAL’s asset managers have a wide range of contacts, and diverse tasks. 30 business people and technicians are responsible for the operation of 130 renewable energy plants across eight European countries. Their task is to maintain and increase the value of each plant.



JENS PETRY
REGIONAL HEAD OF ASSET MANAGEMENT
INFRASTRUCTURE, GERMANY,
SWEDEN AND FINLAND,
KGAL INVESTMENT MANAGEMENT

Mr Petry, once a wind turbine is up, is your job done?

No, quite the opposite – that’s when the real work begins: a single asset manager can be responsible for up to 200 contracts and contractual partners at a time. Plots have to be managed, and clearances and compensation areas belonging to different owners need to be dealt with. There’s also the task of managing the works manager and communicating with public authorities or the mayors. Solar farms and hydropower plants are similar.

Why don’t you buy the plots you’ve mentioned?

Most of them belong to farmers. Real farmers don’t sell; they prefer to conclude a lease contract that lasts at least 25 years.

You mentioned 200 contracts and contractual partners. What work is required in connection with that?

It’s very wide-ranging; a lot of it is project management. For example, property owners want to receive their rent on time. Asset managers are not only responsible for things like commissioning maintenance work, for example, but also liquidity management and monitoring plant performance.

What skills are required for your role?

Everything intersects in asset management; we are the decision-makers. We award the mandates and place all the orders. Of course, commercial knowledge is very important, but you also have to have an excellent grasp of the legal considerations. You also need technical understanding so that you can tell the works manager what needs to be done. It’s really important that we can interact on an equal footing.

You mentioned technology. The KGAL team includes business people, but also industrial engineers like you...

...and physicists and mechanical engineers. Compared to other sectors, renewable energies is still relatively young. I think it’s very important that our colleagues have the ability to dive deeper into technical issues with service providers.

Do technicians regularly undergo altitude rescue training and a health check?

The question is whether the relevant colleague can climb 100 metres and, from the ladder, rescue another person at this height. The individual needing help could be exhausted, or there could have been an accident. That’s why we always climb in pairs.



Is a head for heights essential?

Yes, our new turbines can be as high as 140 metres tall.

How often does each asset manager visit their plants?

I'm on-site once a year to check that the areas are maintained and the plant is in proper condition. That's the only way I can really get a feel for it.

A feel for what?

Well, for example I can see what condition the site is in and talk to the service providers. It's more personal than making a phone call. I develop a feeling for why one plant might be performing better than another, or why one service provider works more reliably than its competitor.

Your colleagues emphasise that you actively manage plants to create value. What is it that you do differently from other investment managers?

There are three areas to build from. I think the first is active performance management. This includes regularly analysing the key figures to extract every possible kilowatt hour. The second is claim management, when something specific has happened or a contract is not complied with. This includes following up on the claim, getting your teeth into it, and being steadfast – even if it takes two or three years. This claim management process sometimes needs to be enforced by legal action; this can be a tough battle, but is also part of active asset management.

And the third area?

That is professional administration, or – to be more specific – active procurement management. We form the brackets around all the parties involved. This requires a clear mission: we must set and demand targets, because they set the framework.

What does the investor get out of it?

Sooner or later, performance would decline if there were no active management. Or to put it another way, active management can enhance performance and save costs.

From the asset manager's perspective, is active management more attractive than passive management?

Yes, of course. The task is much more exciting if I can look at a plant as a whole, and if we can play the whole field and shape the game. We need to understand what the objective is. We cannot work without a broad-based understanding of how commercial, legal and technical aspects interact.

Your colleagues tell us that they also have to deal with cows, bats and wildcats.

Every wind or solar farm has an impact on the environment. Biologists investigate this aspect. The nature conservation authority then formulates requirements where required, and we have to take those into account – in Germany they often concern bats, cranes and birds of prey such as red kites. Operating restrictions are required, but so too are compensatory measures.

How do you feel about collaborating with biologists who work at public authorities?

My experience is that the requirements they impose make sense. After all, it's not an easy task. If the meadow beneath a power plant is mowed, for example, the red kite will head straight for it. It does this out of innate biological instinct, but doing so puts the bird at risk from our turbines. So we shut the plant down during these periods. In addition, we try to divert or redirect the red kite by also making other areas attractive to it.

Is there a formula for positive collaboration?

Yes, there is. Transparent communication and an open ear during operation are helpful.



KGAL INFRASTRUCTURE

DIVERSIFIED AND TOP-RANKING: OUR PORTFOLIO IN EUROPE

GREAT BRITAIN

 1 PLANT
14 MW

FRANCE

 11 PLANTS
203 MW

 14 PLANTS
107 MW

SPAIN

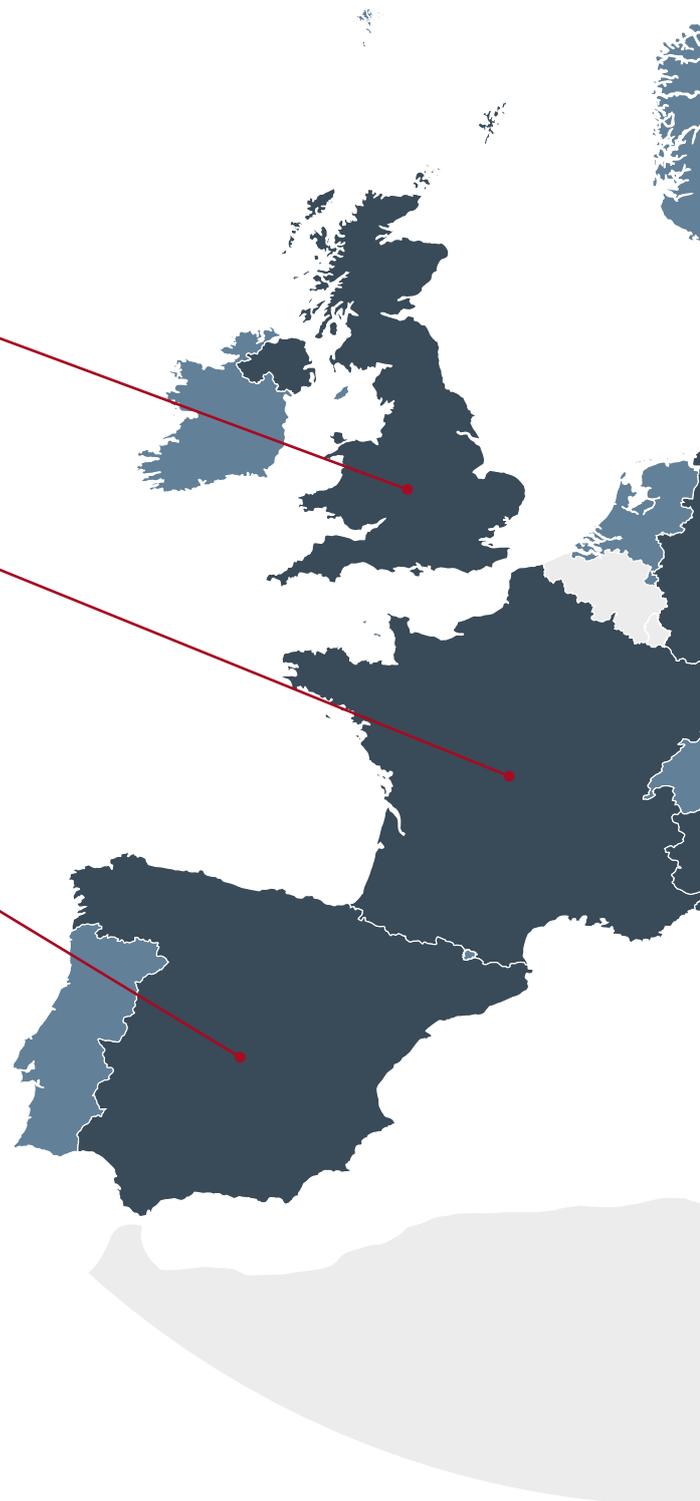
 13 PLANTS
77 MW

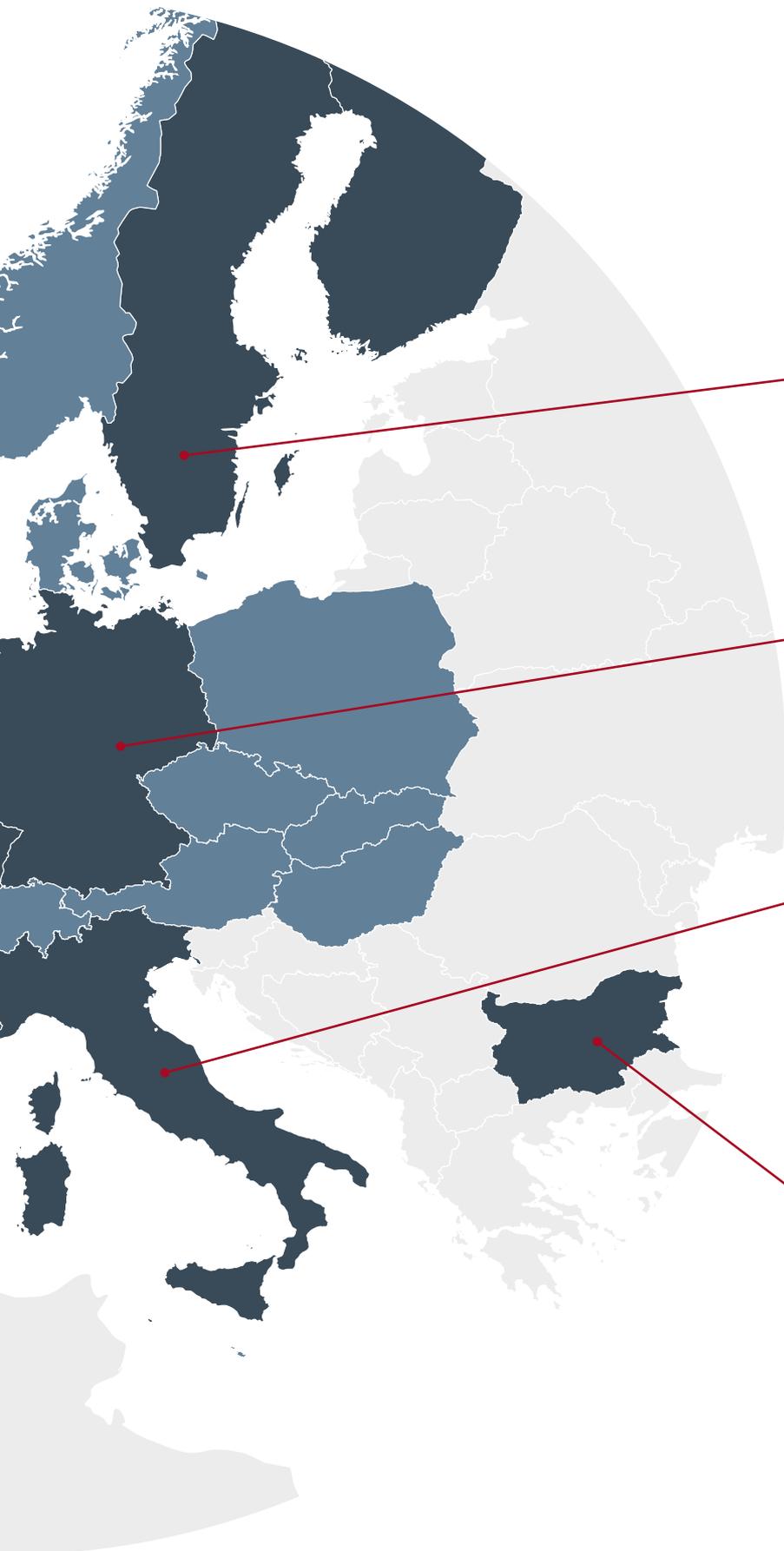
PLANTS:

-  WIND POWER
-  PHOTOVOLTAICS
-  HYDROPOWER
-  under construction

COLOUR CODE:

-  Investment experience
-  Advanced due diligence experience





FINLAND AND SWEDEN

 **4 PLANTS**
53 MW

 **2 PLANTS**
160 MW

GERMANY

 **37 PLANTS**
391 MW

 **19 PLANTS**
126 MW

ITALY

 **20 PLANTS**
88 MW

 **4 PLANTS**
4 MW

 **1 PLANT**
53 MW

BULGARIA

 **7 PLANTS**
26 MW



LA BELLA FIGURA PROFESSIONAL AND CORDIAL!

Solar power and hydropower: seven colleagues from KGAL Investment Management manage 25 plants in Italy. Based on their experience, typically Italian is not Italian!



SILVIA BAZZANI
ASSET MANAGER

As an Italian, I enjoy the advantage of knowing the language and its nuances. My fellow Italians feel freer. There's also the camaraderie of the Italians ("I'm telling you because you're Italian and you understand me."). This is particularly helpful when working with public authorities, who are sometimes sceptical of investors from outside the country.



ANDREAS LUTZ
ASSET MANAGER

Crucially, success in Italy depends on choosing the right partners. A good personal relationship and Italian language skills are very helpful in collaboration and solving problems. It's often good to take a less "German" approach, and to trust your partners.



GABRIELE BÖSL
ASSET MANAGER

I have been working with Italian business partners for almost two years. At first, a lot of things were new to me, but my contacts are very helpful and committed. They are passionate about their work – and that passion is contagious. When they ask, "How are you?", they really want to know! I settled in very quickly.



EVA DELL'ARMI
ASSET MANAGER

Italy is a complex and also contradictory country. There's a great deal of local patriotism, and culture can vary greatly from region to region. But one thing is true everywhere: courtesy, cordiality and etiquette carry more weight than in Germany. Italian business partners are often very flexible and willing to break new ground in negotiations.



VERONICA MELANI
ASSET MANAGER

I think of my fellow Italians as flexible, polite and responsible – that's why you should never tell them that they're unreliable. While Italians really enjoy talking and will chat a lot, Germans are often very direct and curt in their manner; to Italians this often comes across as rudeness, as I have learned from experience.



HEIKO WESSEL
REGIONAL HEAD
OF ASSET MANAGEMENT

If you approach people in a friendly and respectful way, then that will be how they treat you in return. For negotiations, this means taking a solutions-oriented approach, not always insisting on your own opinion, and also giving your business partner space and time to contribute their ideas. Very often, it's not what you say but how you say it.



WOLFGANG HÜTTL
ASSET MANAGER

I find Italian business partners to be resilient and flexible. They are very well trained and work hard, as well as being service-oriented. They adapt quickly to new situations, which is good for us. If you treat them with respect, the relationship becomes more personal and loyal. A lot of things become easier when I speak in Italian, as it opens everyone's hearts.

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KGAL Group

KGAL's investments in renewable energies focus on a diverse portfolio in the wind power, photovoltaics and hydropower sectors. Since the turn of the millennium, the company has invested in more than 130 assets across Europe with a total volume of approximately €2.8 billion. KGAL Group is a leading, independent investment and asset manager with an investment volume of €20.5 billion. The investments focus on long-term capital investments for institutional and retail investors in the real estate, infrastructure and aviation asset classes.

Source information:

Federal Ministry for the Environment, Nature Conservation, Construction and Nuclear Safety in Figures: Climate Targets in Germany and the EU, www.bmu.de/en/

Der Spiegel, No. 19 / 4.5.2019, Grüner Blackout [Green Blackout], pp. 12-21

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