Renewable Energy Finance: Hedging and Risk Management During Financial Markets in Turmoil

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Topic
Widespread speculation that the end of the Bush era would bring significant changes in the renewable energy space as the new Administration moved to put its own imprint on energy policy matters. While these new initiatives were being formulated, projects continued to confront market risks that threatened the viability of project financing. Energy output from renewable energy projects continued to be priced on the basis of short-term spot and forward markets and carbon regulation would vector energy pricing through "cap and trade" or other forms of carbon regulation. The November webinar considered alternatives for managing these risks during financial markets in turmoil.
1) The commercial issues incident to renewable energy projects and the numerous contractual strategies to mitigate the inherent risks. The panel also explored the risks introduced by the reliance on those contractual strategies.

2) The legal building blocks of energy derivatives were considered. The role of the "ISDA Master Form" was explained in the context of effectively documenting derivatives transactions. Additional issues regarding counter-party risks, credit support for trades and the risks associated with early termination also were addressed. Tailoring of derivatives products to fit renewable and carbon based project operating profiles also were discussed.

3) The role of derivatives in managing risks incident to the regulation of carbon emissions were considered. Markets trading in emission credits, allowances, renewable energy credits and similar products were considered as potential sources of risk hedging products. Panelists discussed how these products may mitigate the uncertainties of (1) emerging carbon regulation (e.g., the RGGI and Western States initiatives) and (2) litigation affecting previously issued clean air regulatory initiatives (e.g., CAIR). The question of whether it is possible to simultaneously hedge the cost of emissions allowances and the forward pricing of electricity was also considered in the program.

4) The benefits and disadvantages of formalized regional, federal or international emissions trading markets as a tool for managing carbon price volatility.

Moderated by
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