

***“What do you think the role of an investor like Terra Firma can have in promoting alternative energy sources and helping to solve the planet's environmental problems?”***

*Viewpoint from Ingmar Wilhelm, Financial Managing Director, Terra Firma*

Europe faces three major challenges in determining its future energy policy: ensuring an affordable supply, increasing energy independence and combatting climate change. Renewable energy can make a major contribution to help Europe achieve all of these goals.

Because renewables are naturally replenished, the energy they provide is free. The major cost involved in renewable power generation is the upfront investment. Thereafter, low maintenance costs and zero fuel costs ensure energy supply for the long-term and at very predictable cost. In the years until 2020, the predominant technologies that produce renewable energy today – hydro, onshore wind, and solar photovoltaic – are forecast to supply ever more energy to the total energy mix and to be cost-competitive compared to traditional fuel sources in many countries around the world.

Renewables also have a decisive role to play in enhancing Europe's energy security. As renewable energy is in most cases generated and consumed locally, increasing the share of renewables in the energy mix reduces every country's dependence on imported fossil fuels, mitigating the risks posed by volatile fuel prices and supply disruptions.

And, of equal importance, renewables offer an unrivalled ecological footprint compared to all traditional sources of power generation. Europe recently demonstrated its commitment to a more sustainable energy supply through a binding emission reduction target of 40% of 1990 levels by the year 2030. The countries of the European Union also agreed that at least 27% of Europe's energy should be supplied from renewables by 2030. This represents an additional move in the right direction, although the target is not yet binding at the national level.

Renewables have already become a fundamental component of the energy mix in many countries. They now account for approximately 1600 GW of power generation capacity installed globally. The amount of electricity they produce is equivalent to the share of global gas-fired power generation, at nearly 22%. In the UK, 15% of power generation already comes from renewable sources, and it is even higher in countries such as Germany, at 26%, and Italy, at more than 30%.

Reaping the substantial benefits of renewables and achieving emissions targets will require building scale and improving operations and development among existing, mature technologies to further drive down costs and achieve ever higher levels of efficiency. It will also require developing new renewable technologies to further enlarge the energy mix.

To meet these challenges, the market will need to find new sources of continuous investment in renewable technologies. We are at an important moment in the evolution of renewable energy generation, the “consolidation phase”. Currently a large number of utility companies are disposing their “non-core” assets to raise capital and repair balance sheets, and this typically includes large portions of their renewable assets. Going forward, increasing the scale of renewable generation capacity will require other types of medium to long-term investors, in particular infrastructure funds and their constituents. By creating high-quality investment opportunities for pension funds, sovereign wealth funds, endowments, family office as well as funds of funds, investment firms like Terra Firma are adding a lot of momentum to this process.

At Terra Firma, we find the opportunity to play a pivotal role in the next chapter of renewable power generation highly motivating. Terra Firma has owned renewable energy assets since 2003 and has established a strong track record of building renewable energy businesses which operate low-risk, commercially-proven generation technologies characterised by scale, operational excellence and strong cash flow generation capacity.

Over the past decade we have built three best-in-class renewable power generating companies. Our first was Infinis, the UK's leading independent renewable power generator, which we built from the ground up and in November 2013 took public on the London Stock Exchange. We also own EverPower, a top 20 wind generator in the United States, and RTR, Italy's largest solar photovoltaic power generator. In 2013, we were ranked by Bloomberg as the largest financial investor in renewable energy in the world.

We are hands-on in our approach to owning and managing our companies and target market-leading levels of operational excellence, maximising efficiencies and driving down costs. For example, in each of our businesses we bring core competencies in-house, so we can closely monitor our operations and ensure they are performing optimally. At Infinis we did this by installing a state-of-the-art control centre from which we monitor every plant and remotely operate them in order to achieve the highest levels of plant availability and energy yield.

With the capital that we have deployed in this sector we have built a portfolio with significant scale; through 20 transactions we have acquired assets with 1.7GW of generation capacity. In doing so, we have developed an unparalleled level of expertise that has allowed us to showcase the potential of renewable investment to the very large global community of infrastructure investors. Given the importance of continuous investment to creating a sustainable energy mix, this is among the most significant things we can do as a firm to contribute to the health of the environment.

Finally, it is important to note that addressing the planet's environmental challenges will require more than just renewable energy investment. It will, for example, require a much more universal acceptance of the need for sustainable business practices, which are today addressed under the catch-all "ESG" (Environmental, Social and Governance).

At Terra Firma we have acknowledged this and keep working to reduce our impact on the environment and also encourage others to do the same. As a firm, we challenge our portfolio companies to maintain the highest sustainability criteria and make an effort to be completely carbon neutral. For example, we take steps to reduce unnecessary travel and offset our emission footprint by purchasing quality carbon credits. We also aim to support projects with environmental and social outputs, such as the Darfur Low Smoke Stoves Project, which supports the use of liquid propane gas stoves to replace wood burning stoves, together with wind and small hydro generation schemes in India and Turkey.