

# Inflation Risk Recedes for New European Renewables as Developers Absorb Higher Costs

Media Mentions

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*S&P Global Commodity Insights* covered Bracewell's recent energy roundtable with journalists where firm lawyers discussed various topics, including how the threat of rising inflation to European renewable energy project development was avoided last year in part because investors accepted lower returns.

"Today the picture is very different," said **Ro Lazarovitch**. "Six months ago, contractors were executing at a loss. Now projects have adapted and inflation linked pricing has not really emerged."

Reduced margins had been accepted by many investors, while driving some low-cost players out of the market and reducing competition in tenders, Lazarovitch said.

"Where budgets have increased, getting approval from lenders has been a relatively easy process," he added, noting this was also the case for oil and gas projects.

While renewable projects were less able to absorb increased costs than higher-margin gas peaker projects, developers were learning to offset higher costs by boosting merchant exposure to volatile power markets, Bracewell's **Gordon Stewart** said.

"Sponsors are looking to take advantage of near-term power prices and capitalize on merchant risk," he said, noting a trend to co-location with batteries for wind and solar projects.

The delayed triggering of UK Contracts for Difference start dates by some large offshore wind projects was another case in point, with a number of assets taking advantage of the so-called "merchant nose" opportunity to capture high wholesale prices.

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“There has been understanding on COVID-related delays, but disappointment in UK government circles at ‘merchant nose’ delays. I would not be surprised to see more specificity introduced [by CFD manager LCCC] in the next iteration of CfDs with respect to delays to the start dates,” said Stewart.

Switching to upstream fossil fuels development, Bracewell’s **Jason Fox** said “the noose is tightening” on independent oil and gas companies seeking bank finance in EMEA.

“While the war in Ukraine has seen government thinking swing from climate action to security of supply, this has not played out similarly with the lending banks,” he said.

Noting BNP Paribas’ recent decision to reduce its specialized oil lending book by 80% by 2030, Fox said he expected other banks to scrutinize the decision, and some will doubtless follow.

Governance and corruption concerns were driving an additional retreat affecting some geographies, “making it evident that with limited exceptions Africa E&P lending is now a place for African banks,” he added.

Independents had various options to fill the bank finance gap. Cash-rich concerns could bankroll their own developments, although many had chosen to reward shareholders, Fox said. “Bond markets can sometimes fill the gap and commodity traders are an important source. Then vendor finance has become an increasing part of the acquisition model, with the seller providing finance to the buyer.”

Finally, climate-related legal disputes were increasing from a low base said Bracewell’s **Alistair Calvert**, with the success of the Urgenda case in the Netherlands acting as a call to action for environmental groups across Europe.

Calvert noted disputes over corporate greenwashing, false claims and failure to adopt adequate climate strategies as key areas of dispute, citing examples such as the shareholder activist case against Santos’ clean energy claims in Australia and Friends of the Earth’s failed bid to challenge UK Export Finance’s decision to provide funding for Mozambique LNG.

Of particular note was ClientEarth’s shareholder action against Shell’s board over its alleged failure to align the company with the Paris Agreement, Calvert said. “Derivative claims [brought by a shareholder on behalf of the company in relation to a breach of duty by a director] are hard to bring but attract lots of publicity — directors need to take these seriously.”

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