Australian Wind Farm Transactions
October 2016

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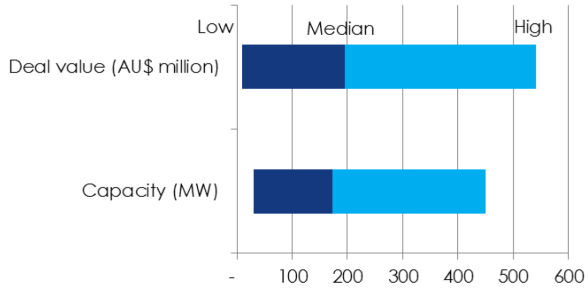
Overview

Transaction activity in the wind energy sector is once again gaining momentum in Australia, supported by the enactment of favourable State legislation and the resolution of the Federal Government's Renewable Energy Target ["RET"] in early 2015.

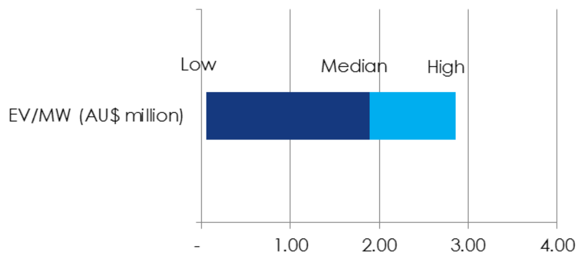
Over the 12 months to September 2016, we have seen a number of transactions of development and operating wind farms, representing AU$914 million of investments across 737MW of generation capacity in New South Wales, Victoria and South Australia.

Domestic wind farm transaction data



Source: MergerMarket, Marketline

Domestic wind farm transaction multiples (AU$EV/MW)



Source: MergerMarket, Marketline

The remaining term of the Power Purchase Agreements ["PPA's"] underpinning the sale of the electricity generated from the wind farms vary from as short as 10 years (Taralga Wind Farm with EnergyAustralia) to 23 years (Macarthur Wind Farm with AGL Ltd) with a mean of 17 years.

Emerging trends

Transactions over the past 12 months have been dominated by operating assets, however there is over 1GW of high-profile khaki-stage projects currently in the market which are expected to close in the coming months with over 80% of that generation capacity located in Victoria alone.

The emergence of a strong khaki-field market is in part in response to the slew of capital pledges over the past 12 months from the like of experienced renewables investors such as Palisade, AGL and the CEFC as well as new market entrants including QIC. Collectively, these investors have earmarked a whopping AU$4 billion to invest in domestic renewable energy projects and will need project pipeline.

Anecdotally, financial investors who previously would only invest in brownfield projects are coming up the risk curve and are evaluating development risk within their portfolios.

A number of the projects coming to market during the remainder of calendar year 2016 are already underpinned by a PPA which by virtue sets up a reverse auction for the project. Clearly, strategic investors such as turbine manufacturers will be best placed to competitively bid for such projects, making it difficult for financial investors to bid competitively without a turbine partner.

Conclusion

Much of the transaction activity over the past 12 months has been focused on operating assets, however it is clear that in order to meet the Federal Government's renewable energy target, much focus will need to be placed on development-stage investments to increase renewable energy generation capacity.

Funding for development-stage projects may be challenged in the near-term, as seasoned renewables investors, who seek to fully contract-away price risk (i.e. bundle PPA contracts), are deterred by projects with black-only contracts, reflecting policy uncertainty at a Federal level.

However, with LGC prices trading at above $80/MWh since the start of this year (and supported by a shortage of certificates in the market), superior returns may be earned by investors who are willing to take semi-merchant price risk and 'front-end' their cashflows before the end of the RET in 2030.

About Climate Capital

Climate Capital is a renewable energy generation developer specialising in solar, wind and energy storage, with as much as 500MW of projects currently under development on its own account in Australia.

Climate Capital delivers renewable energy solutions lead by its team of developers, who combined have originated and delivered over 1GW of projects across Australia, and leverage the experience, capability and networks of its domestic and international commercial partners.

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