

A photograph of a desert landscape with several wind turbines in the background. The sky is clear and blue, and the ground is covered with dry, yellowish-brown vegetation. The turbines are tall and white, with three blades each. They are spaced out across the landscape, with some in the foreground and others further back. The overall scene is a mix of natural and man-made elements.

Renewable Energy Sector Focus:

Key trends and how businesses can leverage them

With 2023 approaching, climate change and the Ukraine crises are driving the growth of the renewable energy sector more than ever. But while current demand signals are largely healthy, there are, as always, headwinds that some businesses in this field will be better equipped than others to navigate.

Phil Keet, CEO of digital transformation specialists, Millennium Consulting examines the current dynamics of the renewables sector, and how companies can equip themselves to leverage the opportunities that undoubtedly exist.

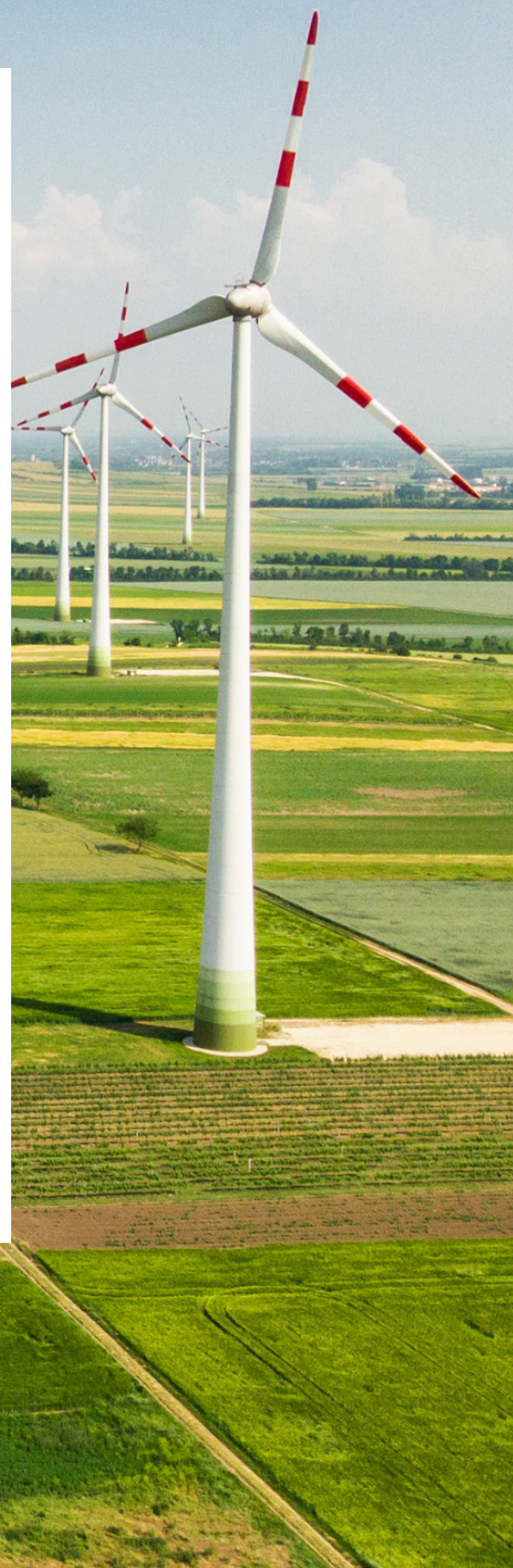
Sector snapshot: what will 2023 bring for renewables?

The UK government's stated decarbonisation goal will require a 78% economy-wide reduction in emissions by 2035. Given that 40% of the nation's energy still comes from fossil fuels, there is obviously still much ground to cover in a very narrow timeframe. It's a similar story across the globe: ambitions at policymaker level are bold and will not be met without fresh ideas and closer collaboration with private enterprise.

Meanwhile, a recent survey suggests that nearly half of European private equity managers are hardwiring climate change into their investment decisions; up from 34% in 2021. This is driven by ESG considerations, alongside a strong appetite on the part of individual investors for climate-related assets.

So in 2023, policymakers are going to be more reliant than ever on organisations within this sector if governments are going to get anywhere close to delivering on their promises. For those companies with a credible, evidence-backed business plan looking to scale up through investment, the broad sentiment is favourable.

But what about the operational side? This is where some of the sector's biggest near and medium-term challenges are to be found. Here is a closer look at these challenges, and the steps businesses can take to mitigate the risks...



Operating costs, and the ability to ask 'what if?'

In a year of record-breaking Ofgem price cap increases, the energy sector has - unfairly - been cast as one of the 'bad guys' in the current economic story: i.e. the single biggest culprit driving up inflation. From a reputational perspective in 2023, companies right across the sector are going to face continued pressure to stem costs and help bring inflation to a manageable level.

The reality, of course, is that most operators are as much a potential victim of inflation as businesses from any other sector. Especially for up-and-coming renewable energy companies, sudden, unpredicted cost increases can have a catastrophic impact on cash flow, to the point of representing an existential threat.

What if our lithium or other key commodity supplier was to be hit by a temporary export moratorium? What if plant maintenance costs were hiked? What if we were to negotiate a staff pay increase of 5, 10 or 15%? What if capital borrowing costs were to increase by 1, 2 or 3%? To increase operational resilience in 2023, businesses within the renewables sector should look closely at their forecasting capabilities. Scenario planning is an area that demands special focus: businesses need the ability to apply multiple variables to their forecasting models, to ask 'what if?' and get a range of options in order to respond to possible threats.

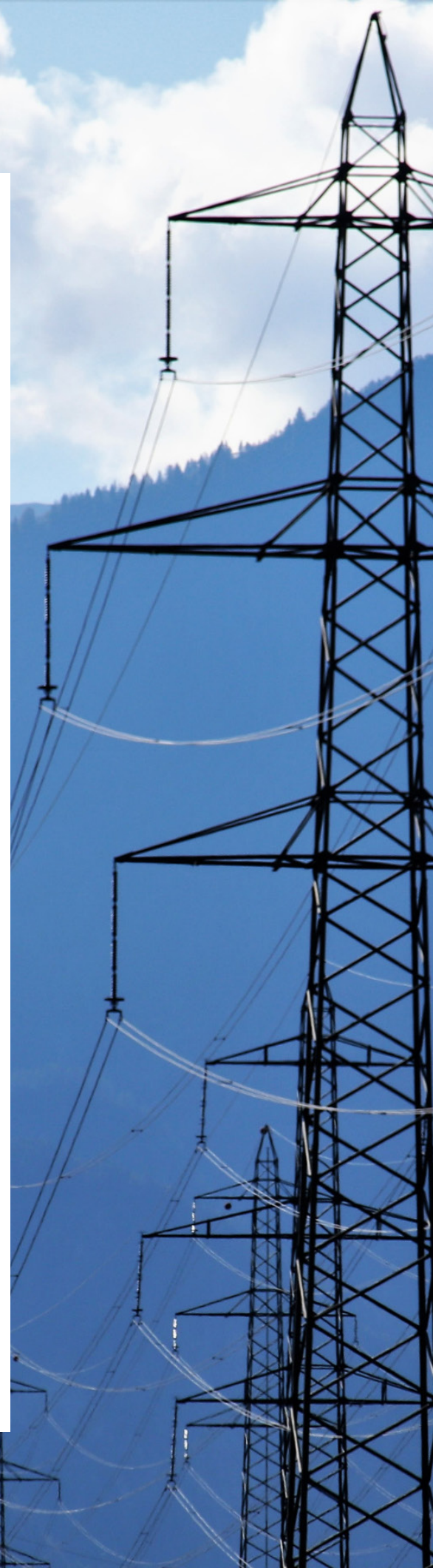
Security of supply and the role of data

There is obviously a broad policy-level aim to become less reliant on legacy sources of energy. But alongside this, recent geo-political events have also brought the issue of security of supply into sharp focus. There is a potential conflict of priorities here. Governments and grid operators want the renewable sector to play a greater role, but also need assurances when it comes to continuity of supply. In the future, the most successful operators in the renewables field are likely to be those with the greatest ability to anticipate both market demand, as well as their own production capacity.

So how might this be achieved? A key part of the strategy will involve companies examining their data architecture and ensuring that all elements in the supply chain are able to communicate effectively with each other.

For larger operators especially with a mixed portfolio of renewable and non-renewable assets, there is often a wide spread of geographically dispersed facilities to manage. Unless there is an integrated platform linking these elements, then the data from them remains isolated, thereby hampering stakeholders' ability to make informed predictions and decisions. Companies should look carefully at what level of data is produced at each business unit level, consider how that data might be of use to strategic decision makers and look at ways to consolidate and make it available.

The same principle of breaking down data silos applies to the role of artificial intelligence (AI). For renewables operators, this is most often deployed in the context of predictive asset maintenance; e.g. smart sensors that issue alerts if for example a wind turbine component is at risk of failure. The primary aim of such technologies is obviously to ensure continuity of supply from an operational perspective. However, companies may also want to consider whether, and to what extent it would be valuable for consolidated data from these systems to be fed through to the finance function, particularly when it comes to cash flow predictions.



Accuracy in reporting will enable scale-up

2021 and the first part of 2022 saw something of a mini-bubble arise when it came to green investing. Particularly in the aftermath of COP26 in Glasgow, numerous assets with vague 'eco-friendly' labels found their way onto asset managers' portfolios as a way of boosting their ESG credentials. The shine came off this approach in the aftermath of the Russian invasion of Ukraine, along with a regulatory crackdown on 'greenwashing'.

In 2023 and beyond, renewable energy companies looking to secure investment finance are still likely to encounter a favorable climate. However, any claims made about the potential and possible applications of your IP, growth projections, likely output, carbon emissions and such like are likely to face greater scrutiny than ever before. In other words, just because a business model is labelled 'green', there is no automatic passport to funding.

For their disclosures, it is more important than ever for companies to look closely at the quality, accuracy and completeness of their data. In particular, for topline projections, it should be possible to drill seamlessly into operational data to see how the figures have been arrived at.

What next?

Millennium Consulting has recently partnered with IFS AB, world-leading experts in enterprise resource planning, asset management and field service software which are well suited to the renewable energy sector. To equip your business with the reporting, forecasting and planning capabilities you need to take your business to the next level, speak to us today.

Contact Millennium Consulting at assist@millenniumconsulting.com