

CGN FUND III UPBEAT AFTER CHINA'S SOLAR RULE CHANGE

11 June 2018 | 09:16BST

Asia

Sector: Renewables
Country:  China
Published: 11 June 2018
Author: Celine Ge

The manager of the [CGN Infrastructure Fund III](#) is currently in discussions with partners for solar asset transactions in China.

“We see great opportunities for us in solar for the coming 24 months,” Raymond Fung, CEO of CGN Fund Management Company, told *Inframation* in an email.

That follows [rule changes](#) announced by Beijing on 31 May, ordering the suspension of construction work on utility-scale solar farms in China from 1 June along with a cut in the solar feed-in-tariff (FiT), the second this year.

Fung revealed that CGN Fund III - which counts HRL Morrison affiliate JIDA Capital Partners as its general partner - had not invested in solar since March 2017. This was “based on our understanding of the regulatory trend,” he said.

He described the opportunities after the rule change as presenting “lots of mines, some of them will be land mines but some of them will be gold”.

At the same time, CGN Fund III is [premarketing](#) its portfolio of operating renewable assets to potential investors.

Fung observed that the new regulations were issued in response to the “outrageous pace” of solar development in China. And he sees the new regulatory environment as a “great catalyst” for a more sustainable industry going forward.

The manager now forecasts the construction halt to drive PV panel prices down to USD 23 cents/watt in 2018. That is two years ahead of the fund's earlier prediction, due to the expected decline in demand for PV panels following the rule change.

“Our internal analysis suggests [solar] PV will be cheaper than coal in all of China, be it utility-scale or distributed end user, by 2020,” Fung said. “This is going to have a profound impact on the world's power system.”

Past solar deals

The last solar assets the CGN Fund III invested in are two of the country's largest utility-scale solar projects launched by the government under its billion dollar “solar poverty alleviation initiative.” That was in March 2017, before the fund reached a RMB 3.69bn (USD 576.2m) final close in June.

In 2014, Beijing [released a plan](#) to install distributed solar PV (both rooftop and utility-scale) in impoverished villages and counties across China.

This would allow residents to generate electricity for their own consumption and make money from selling surplus power to the grid.

Developers of such solar assets pass on a subsidy each year to local households but are allowed to retain excess profits, after distributing this subsidy.

Owners of renewable energy projects in China suffer from years-long delays in the payment of subsidies owed by the central government, due to a massive shortfall in the Ministry of Finance's renewable energy subsidy fund.

Solar projects listed in the poverty alleviation initiative, however, receive subsidies on a priority basis in subsidy payment and enjoy a FiT which is RMB 0.1/ kWh higher than those not included in the program.

Both of the CGN Fund III-invested projects are registered on the seventh batch renewable energy project list, which was published by Beijing in May 2017. Projects on the list enjoy additional subsidy in the form of a higher FiT and priority subsidy payment.

Fung said in January that the fund would not be shy of investing in solar farms as long as they offer good value for money, but wind assets, especially in eastern and central China, continued to be the fund's favourite sector.

The manager planned to deploy all its capital by the end of 2018 before raising a fourth fund next year. It expects to group CGN Fund III's projects into a number of renewable portfolios for sale and is likely to mandate an investment bank to help with its portfolio sales.

Investor Profile

CGN Infrastructure Fund III **FUND**

 CHINA | Unlisted | Closed-ended | Equity fund

Related News

[CGN Fund III premarkets sale of renewable assets 17 January 2018](#)

CGN Fund III reaches second close 12 September 2016

Trending News for Asia

CDPQ increases allocation to Indian stressed assets 12 June 2018

Japanese govt to expand airport privatization program 07 June 2018

Deadline set for 1.7GW Taiwan offshore wind tender 12 June 2018

USD 10bn China-LAC Cooperation Fund eyes Brazil PPPs 08 June 2018

CGN Fund III upbeat after China's solar rule change 11 June 2018

© 2018 Acuris Group. All rights reserved.