

Climate Changed

Introducing the Solar Put: Insurance for Cloudy Days at the Farm

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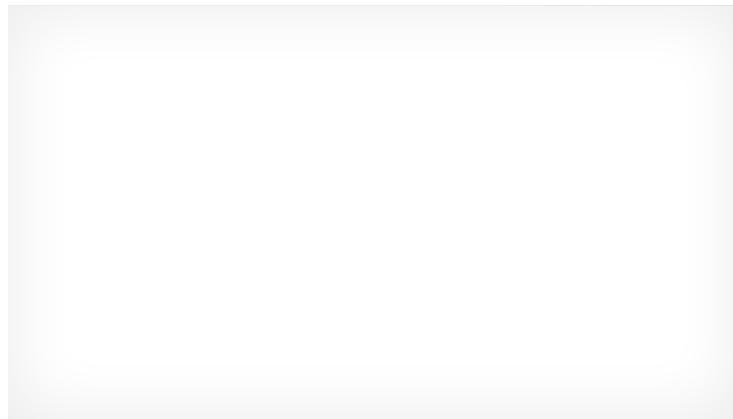
April 10, 2018, 6:12 PM EDT

Updated on April 11, 2018, 7:01 AM EDT

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 - ▶ [Solar put can cut risk, make financing cheaper: KWh Analytics](#)
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Insurance giants like [Swiss Re AG](#), with the help of a San Francisco firm, now have a way of guaranteeing production from solar farms -- not an easy feat considering supplies from these plants rise and fall with the sun.

The product that at least one insurance company is now offering is called a [solar revenue put](#). It was developed by risk-management software firm [KWh Analytics](#) and can guarantee as much as 95 percent of a solar farm's expected output, according an email the company sent to clients Tuesday. Swiss Re has now sold one for three Virginia projects.



This insurance policy stands to strip away uncertainty surrounding solar projects. With a put in hand, lenders may be willing to offer financing at better terms, driving down the overall cost of a farm, said Richard Matsui, KWh Analytics's chief executive officer.

"In the solar business, risk is cost," Matsui said in an interview, and the "cost of capital is the single biggest risk." Swiss Re referred questions to KWh.

A Floor for Solar

Here's how a put works: The policy sets a floor for electricity output from a solar farm. The client pays a premium, and if a plant doesn't generate enough power to reach the floor, the insurer covers the difference. While it may cost about 1 percent of a project's revenue, it also allows project developers to get 10 percent to 15 percent more debt, at better terms, Matsui said.

Underpinning these puts is a database of historical production from solar farms that KWh uses to predict output from planned projects. It forecasts performance based on specific components inside existing plants, Matsui said. Using this, KWh prices the risk for insurance carriers like Swiss Re.

According Nathan Serota, an analyst with Bloomberg New Energy Finance, a product like this could make clean energy cheaper to finance and bring down the price of solar power. "It's advantageous to project developers because it allows them to lower their cost of capital, and solar power prices as a result," he said.

In this article

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87.16 CHF ▼ -0.64 -0.73%
