



Anders Sandoff

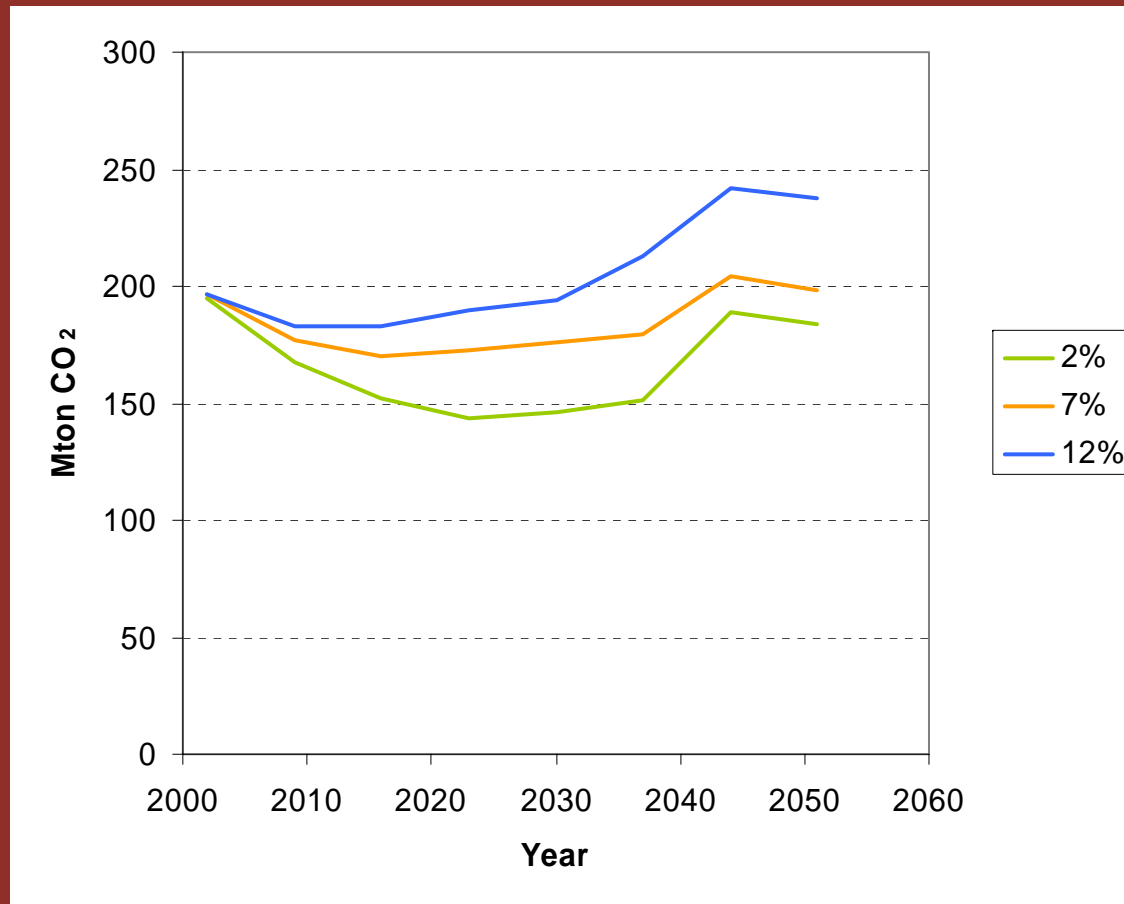
School of Business, Economics and Law
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Interpretation of financial requirements

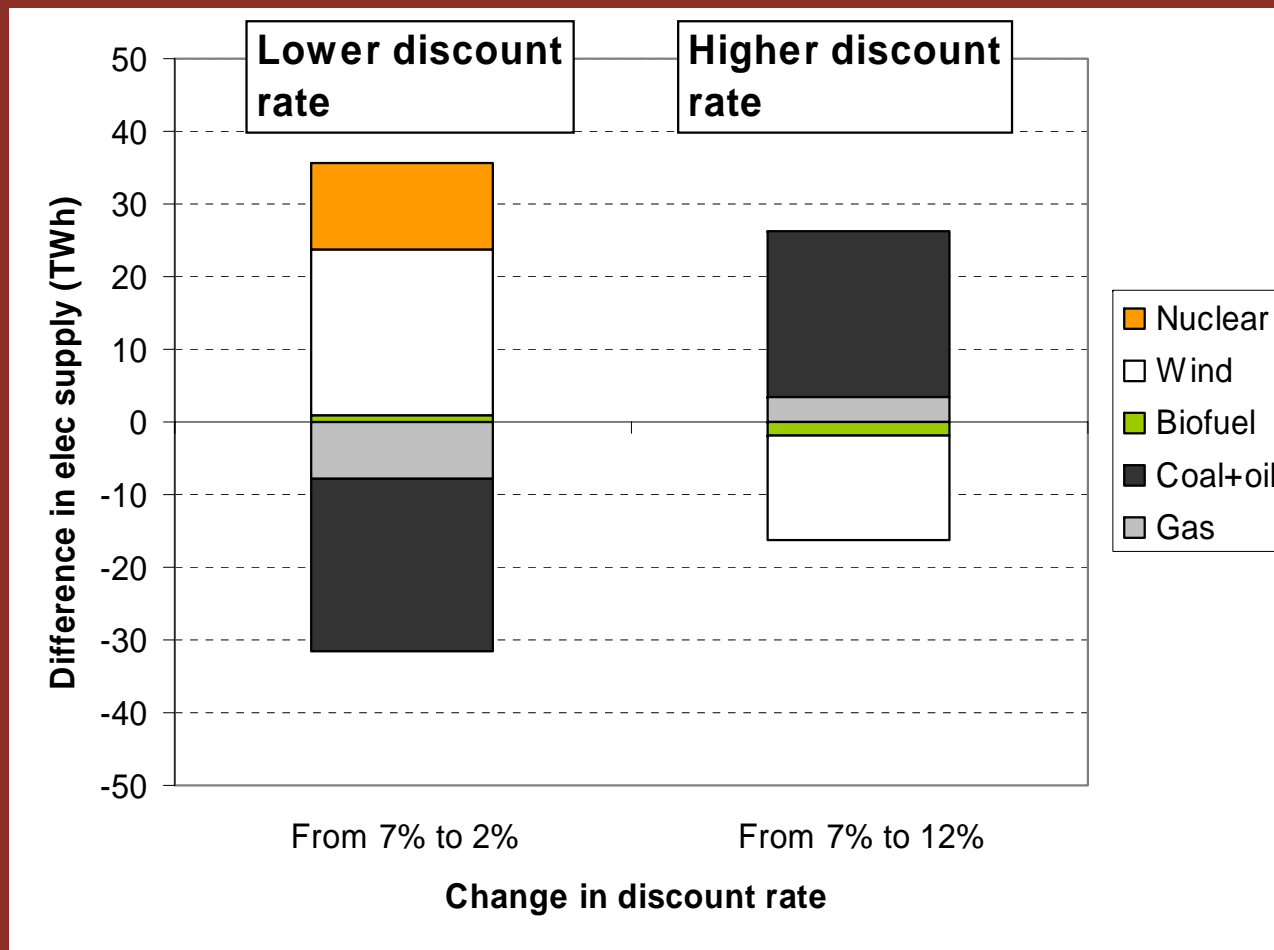
- An impediment to environmentally sound investments?



CO2 emissions from the Nordic energy system at three different levels of discount rates



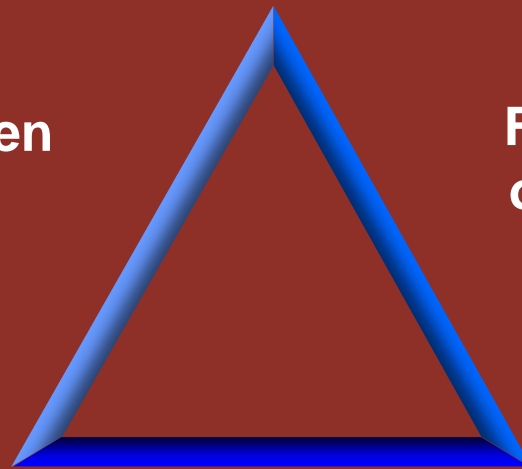
Change in Nordic electricity supply at different discount rates



The triad-like foundation of publicly owned energy companies

Value-driven
ownership

For-profit
organization



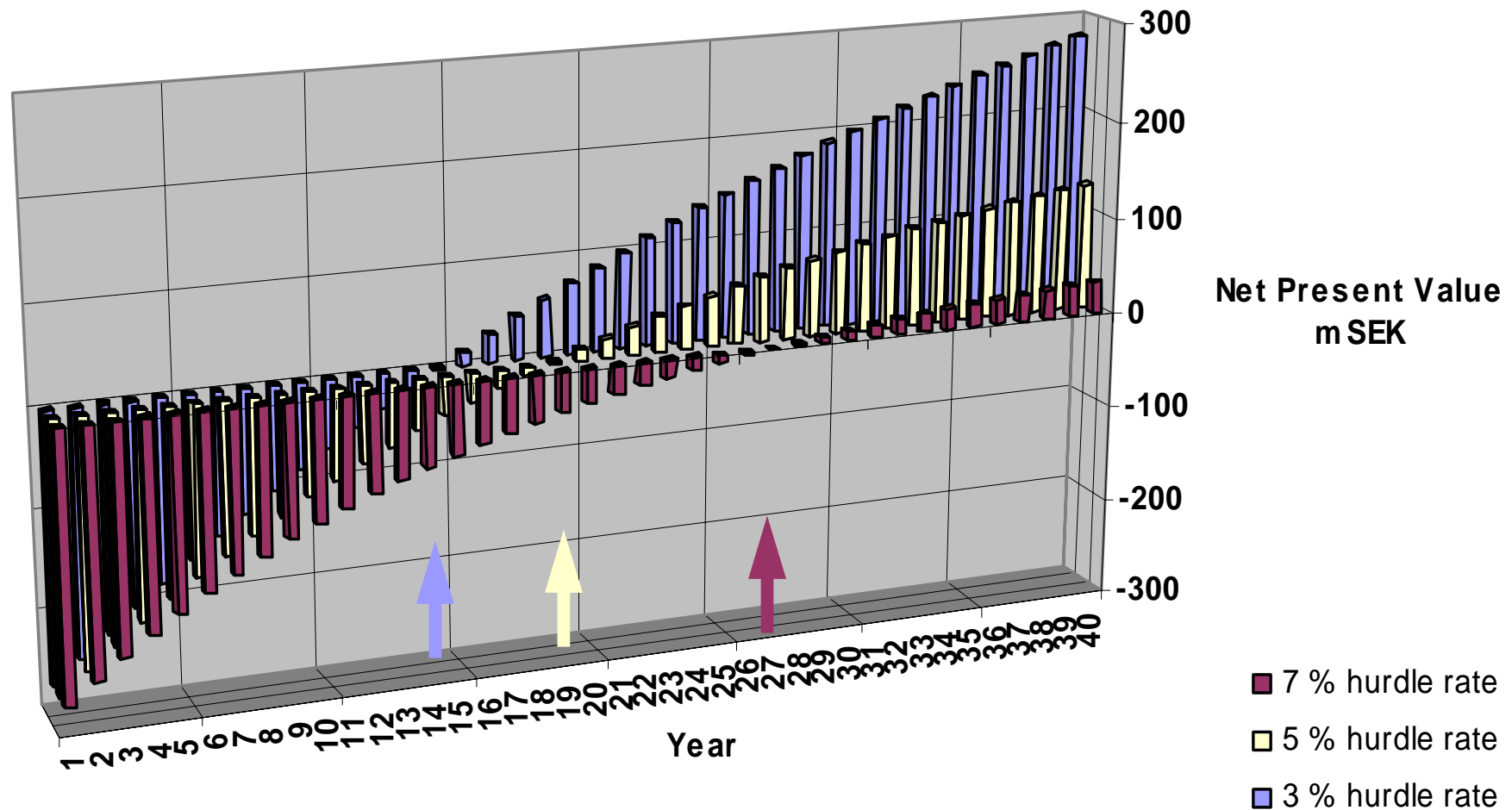
Infrastructural
business logic



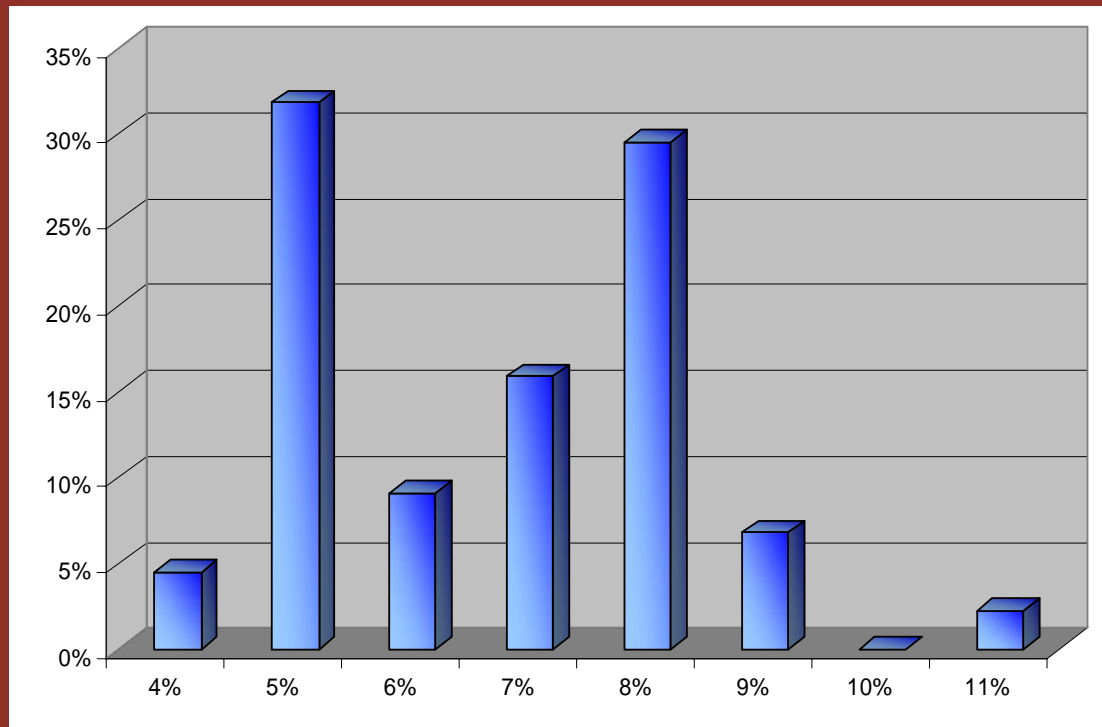
The impact of hurdle rates on the Net Present Value

Initial outlay: 300 mSEK

Yearly net cash flow 20 mSEK



Nominal hurdle rates used for investments in energy production



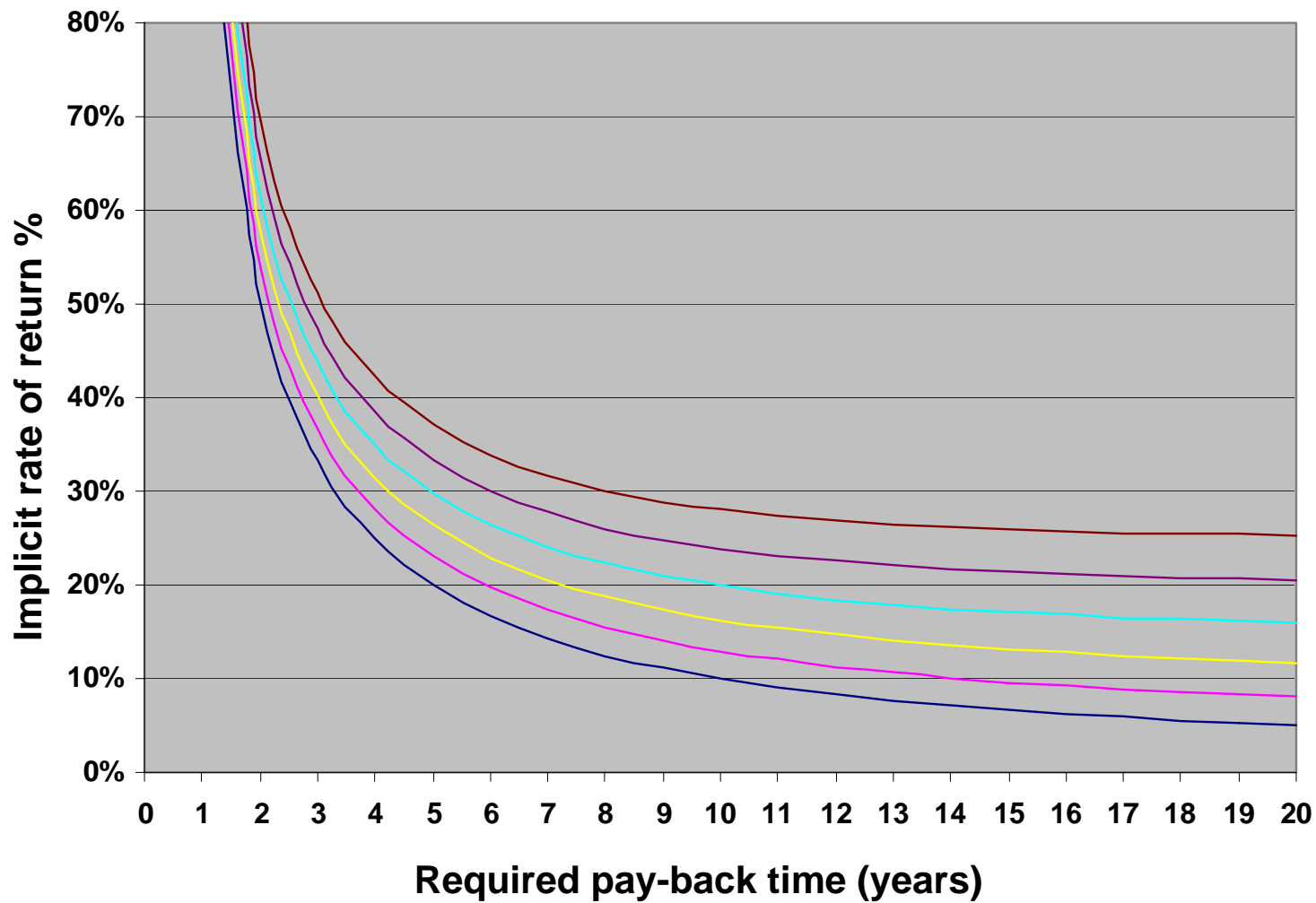
Observations for 44 Swedish utilities

Average hurdle rate 6,7 %

50 % use pay back time as a decision criteria



Pay-back time and hurdle rate as a decision criteria

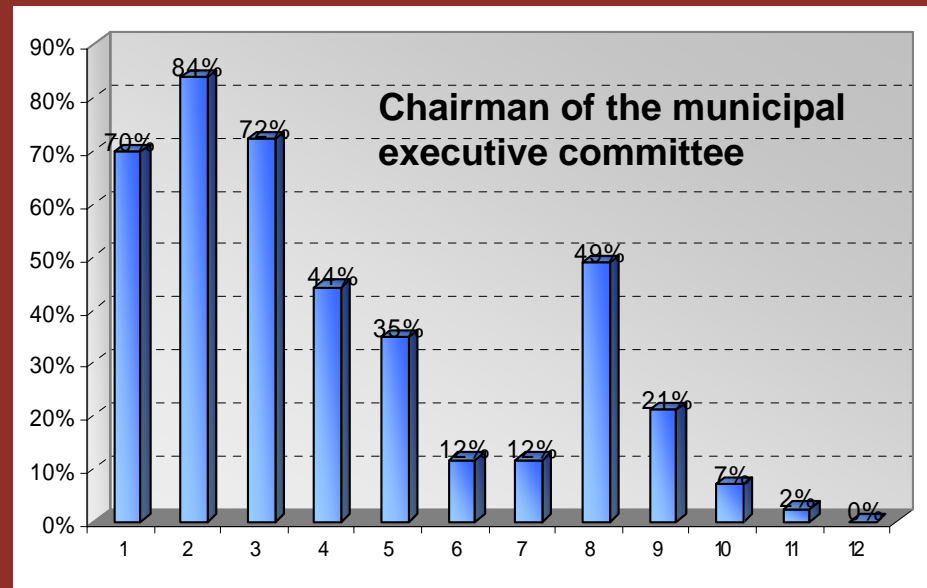
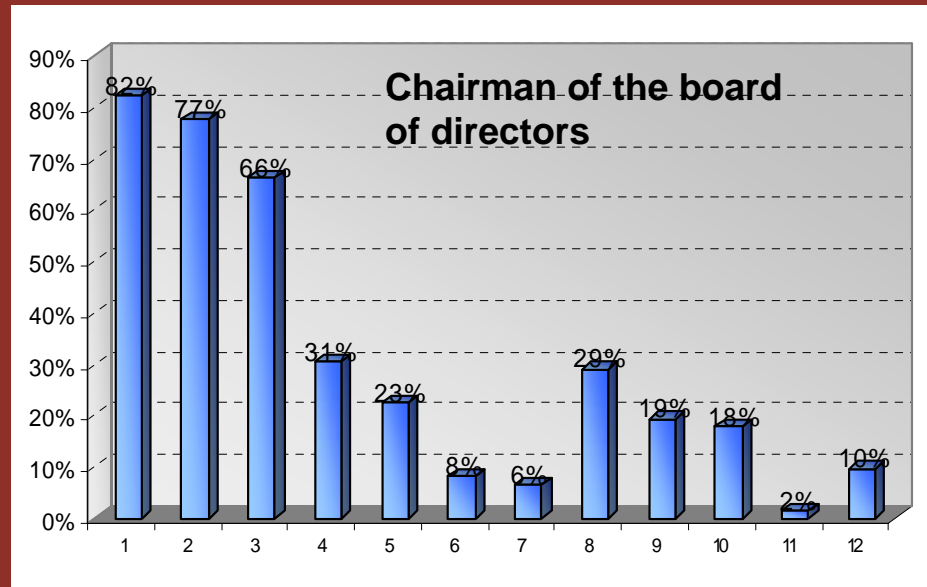


Hurdle rate

- 25 %
- 20 %
- 15 %
- 10 %
- 5 %
- 0 %



Motives for municipalities to own an energy company



1. Influence the local energy system
2. Influence local environment
3. Low price district heating
4. Lower price distribution
5. Increase regional attraction
6. Financing other municipal activities
7. Increases quality in other activities
8. More profitable than selling
9. Gives financial stability
10. Heritage/historical reasons
11. Unclear motives
12. Other than above



Major differences between an infrastructural and a market business logic

	<u>Infrastructure logic</u>	<u>Market logic</u>
Primary focus	Function	Form
Product quality	Homogenous	Differentiated
Necessary market conditions	Stable	Volatile
Investors expect	Satisfactory profitability	High profitability
Preferred planning horizons	Long	Short
Focus in capital structure	Loan	Equity
Corporate governance regime	Active owners	Institutional investors
Suitable method of intervention	Investment and production support	Artificial market mechanisms



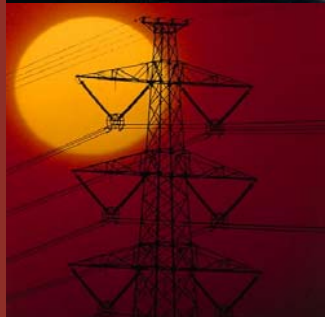
Interpretation of financial requirements

- Capital budgeting techniques
- Valuation of business objectives
- Impact of business logic

Many circumstances pulling in the same direction...

May impede environmentally sound investments





Thank you!

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