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Offshore wind finance: Riding the storm

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Wind Energy Update takes tips from some of the key lenders on what type of offshore wind project is considered bankable in tough economic times.

By David Craik

Securing finance for offshore wind projects has always been a challenge and it’s one that has got harder in the downturn. So how can developers improve their chances of securing vital funds?

Offshore wind projects have traditionally proved more expensive than those undertaken onshore. According to Siemens Financial Services, offshore developments are 50 per cent more pricey than onshore, taking into account the need for new turbine foundations, grid connections, logistics and technology to deal with the harsher environments out to sea.

Throw in the continued global economic downturn, particularly in Europe, along with rising copper and steel prices, and toss in a good measure of uncertainty over Government subsidies, and securing investment for offshore projects becomes even more problematic.

According to Pierre-Etienne Claveranne of specialist advisory boutique Green Giraffe Energy Bankers, offshore wind finance “has never been easy and that’s still the case today”. He adds: “Some traditional project finance banks are struggling to provide long-term loans.”

Indeed fellow French bank Credit Agricole adds that loan deals for offshore projects still trail behind pre-credit crunch levels at an average size of $350million.

But the picture isn’t really that bleak. The Credit Agricole figure for 2011 is an improvement on 2010 and according to market intelligence group Mercom Capital, venture capital funding for wind energy as a whole in 2011 rose to $369million from $277million in 2010.

Makings of a winner

As Claveranne notes, “good projects with a strong case” can still find the money they need within a 6-month timescale, helped by an increasing number of newcomers in the offshore wind financing sector.

He sees financial institutions working more often on a club-deal basis with contributions from the public sector. He adds: “A typical 1billion euros offshore project today will need funding from one to three public finance institutions and 7 to 10 commercial banks.”

A recent example of this includes US private equity firm Blackstone investing 1.2billion euros on developing the German offshore wind farm Meerwind. A club of seven banks, including Commerzbank, Lloyds Banking Group and German state bank KfW alongside EKF, the export credit agency of Denmark, invested €822 million.

Another interesting deal last year saw two Danish pension funds Pension Danmark and PKA acquire a 50 per cent stake for 6billion Danish kroner in the country’s largest offshore farm

Anholt.

PensionDanmark's chief executive Torben Möger Pedersen, says: "Investments in wind farms make perfect sense with bond yields at just above 3% and volatile equity markets in the coming years driven by imbalances in the global economy. These types of investments can generate a return in line with what we expect from the equity market. But the risk and sensitivity to the global business cycle is significantly lower."

So what attracted the financial institutions to each project? What attributes stood out in comparison to other potential deals and what can developers glean from this to help them secure future investment?

Risky business

Blackstone has talked up the importance of involvement by state bank KfW in Meerwind and the enhanced subsidy support the German government is giving wind as it moves away from nuclear power.

PensionDanmark says the structure of the deal with Anholt's developer Dong Energy was vital. Pedersen explains: "Dong Energy remains responsible for operations and is a significant investor in the project which ensures the necessary alignment of interest. This is pivotal to mitigate risks."

He adds that the "stable and predictable" return from the Anholt investment as a result of a government guaranteed fixed feed-in tariff was also important. The tariff ensures that the first 12 years of electricity production can be sold at prices that are already known and guaranteed.

"For projects to be interesting for investors they need to meet four criteria," he continues. "Transparency, predictability, longevity and duplicability."

He says that a project must be profitable in order to build and sustain the right internal capabilities, and the legal framework must be in order. Finally, the right division of labour between governments, operators and investors must be obtained to ensure the best of all three worlds.

"All pension fund capital is already invested. Better risk-adjusted returns must be offered for it to move into alternative types of investments", he explains.

No 'grey area'

Claveranne believes developers need to show lenders a well prepared project plan with a tight contractual structure and solid shareholders. He says all potential risks should have been clearly analysed with no 'grey areas' present.

The technology providers used on the project must already be known or be a strong industrial player with a solid balance sheet. All potential challenges with contractors must already be ironed out.

Banks will also look closely at the financial strength of the project investors and track records. Long-term O&M contracts are also vital.

"You need people on your team including lawyers and financial advisors who have done this in the past. It is in a developer's own hands to bring a ready-made project to lender," he says.

Where the project is based is also important. Developments in stable Northern European countries are currently favoured, given the lower sovereign risk.

“The main thing is visibility on the long-term regulatory framework,” Claveranne adds. “If a government changes then that might change sentiment but right now offshore wind has broad support in countries like the UK and Germany.”

There are still nerves out there given the downturn and potential supply chain bottlenecks. Many established developers declined to comment for this article.

But overall the investment picture looks positive for developers in the months ahead. The money is there if they can tick all the necessary boxes.

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