# INTERVIEW: Banks have capacity to meet offshore wind project finance demand in 2014

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Available lending capacity for offshore wind project finance will match up with the level of demand in the market, the head of leading sector adviser Green Giraffe Energy Bankers' UK office, Clement Weber, told Clean Energy Pipeline.

Several large offshore wind farms are due to reach financial close this year, most notably the 600 MW Gemini project off the coast of the Netherlands, for which Green Giraffe is acting as an adviser. However, while a record 1.567 GW of new offshore wind capacity was installed in Europe in 2013, a slowdown in UK and German offshore wind development and a reduction in offshore wind targets from both countries mean that prior fears over a crunch in lending capacity for projects are unlikely to be realised.

Green Giraffe Energy Bankers' assessment of offshore wind debt financing capacity is that there are more than 30 commercial banks willing to lend to the market. Each is capable of financing one to three projects per year. Banks' ticket sizes for offshore wind projects have traditionally been around the Eur50 million mark, but Weber said that figure is increasing.

Consequently, the firm estimates that about Eur2.5 billion of financing will be available this year from commercial banks for offshore wind. This total is roughly matched by the financing volumes available from multilateral finance institutions, development banks and export credit agencies.

"Our view is that there is room for Eur5 billion to Eur6 billion of funding from the banks (including commercial lenders and multilaterals) for offshore wind," said Weber.

"We have never been worried about availability of bank funding for offshore wind – projects have been delayed for other reasons and banks were frustrated not to be able to lend more to the sector last year. The current constraints on cable connections in Germany and the Levy Control Framework cap in the UK actually provide some visibility on the coming pipeline of projects and will allow for a good balance between the projects looking for financing and the funding available."

While the number of offshore wind projects likely to come online through to 2020 has decreased from previously ambitious (and unrealistic) targets, lending capacity will still remain crucial given the likelihood that project finance will increasingly be used to fund new wind farms due to a retreat by utilities from the sector.

This month alone, RWE Innogy said it aims to act as a developer rather than a majority direct investor in future offshore wind projects while SSE initiated a review of all offshore wind commitments.

According to Green Giraffe, one-third to half of all offshore wind financings in recent years consisted of non-recourse debt, with the rest executed by utilities from their balance sheets. Utilities are now keen to cut spending in order to manage their debt levels and avoid taking on so much construction risk for fear of harming their credit ratings. Non-recourse debt is thus likely to increase its share in financing the offshore sector.

To date, Danish utility DONG has been the most inventive utility in terms of building new offshore wind financing models and has successfully attracted pension funds to invest in its projects, including several non-recourse financings for minority stakes.

“The utility model is definitely something that is changing,” said Weber. “Today, a lot of utilities beyond DONG are looking for alternative sources of financing. For construction financing, they will increasingly look for minority or even majority third-party investors, and shift towards project financing for some assets.

“Alternative sources like bonds, debt funds and IPOs will also become available in the future but will be used to refinance assets and not to fund their construction, as this remains a complex phase that requires more involvement than what these investors are able to manage.”

A series of large UK offshore wind projects have been cancelled since the government announced the final contracts for difference strike prices in December, with many industry observers claiming this proves the subsidy levels and structure are not sufficient to incentivise offshore wind investment.

However, while the CfD may represent a challenge for developers, it will likely prove a more attractive subsidy system for lenders and institutional investors than the current Renewables Obligation, according to Weber.

“We think that the new CfD mechanism is viable,” he said. “Some investors won’t be able to use it, but others have told us they prefer the CfD to the RO and its associated market risk. We thus expect new players to enter the market under the CfD rules. I think in the long term it will not only be viable but will be an improvement.

“The transition period in the next two to three years will be hard but that is always the case when there is substantial regulatory change. It will increase the cost of capital temporarily because banks and investors are not familiar with the new rules and will initially ask for a risk premium, which will fade away as they get familiar with them. Banks and investors became comfortable with the RO even though it was quite complex. The early financings under the CfD will be hard work (and Green Giraffe’s role will be to contribute to making them bankable), but in the long term we are quite optimistic.”

Investors interested in working with Green Giraffe Energy Bankers should contact Clement Weber, Director, at c.weber@green-giraffe.eu.

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