STEVIN WELCOMES RENTEL TO THE GRID

BELGIUM HAS BEEN A PIONEER IN OFFSHORE WIND DEVELOPMENT. A NEW OFFSHORE GRID CONNECTION IS GIVING FRESH IMPETUS TO THE SECTOR, AND THE FIRST PROJECT THAT WILL USE THE NEW CABLE WAS FINANCED THIS YEAR. BY CLÉMENT WEBER AND JÉRÔME GUILLET, GREEN GIRAFFE.

While the renewable energy sector was still assessing the impact of Brexit on the UK long term electricity market, further doubts were raised with the election of a self-proclaimed anti-wind climate-sceptic president in the USA.

However, better news for the sector have been coming from Continental Europe: the recent tenders in Denmark and in the Netherlands show the path towards more affordable offshore wind energy in the medium term and fears about the deliverability of projects pre-2020 have been shown the be unfounded with the recent closing of non-recourse financings for two Belgian projects, coming at the end of an active year for lenders, after the successes of Dudgeon, Beatrice and Merkur.

Following the ratification of the Kyoto protocol in 1997, a binding target on renewable energy was set in 2009 by an EU directive[1]. Pursuant to this EU directive, Belgium had been developing since 2010 an ambitious and proactive policy on renewables, and adopted in April 2014 a National Renewable Energy Action Plan (NREAP). The main target set out in the NREAP was to achieve 13% of gross final energy consumption from renewable energy sources by 2020, up from 2.5% in 2005 and 6.8% in 2012.

Offshore wind is expected to play a key role under that plan, and Belgium has been a market leader over the past decade, with C-Power, Belwind, and Northwind successfully financed and built. However, the lack of sufficient grid capacity onshore to bring the power generated at sea to the rest of the country delayed the subsequent projects, until the recent resolution of that issue via the construction of the Stevin onshore connection.

Rentel is the first offshore wind project of a series of five that have already been allocated – with Norther, Northwester, Seastar and Mermaid together representing 1.4 GW – to be financed since Stevin was approved, reaching financial close on October 3 2016.

The project also had to manage the ongoing transition by the country to a new contract for difference (CfD) price regime, replacing the previous green certificate mechanism. As in most other European markets, offshore projects must now sell their electricity on the wholesale markets and get a "top-up" payment up to an agreed price level from a regulated entity, in this case Elia, the grid operator.

Trust by all parties in the solid government support for the sector allowed the project to negotiate its commercial arrangements and structure its financing in parallel to the new tariff being designed and implemented into law, and Rentel was able to attract competitive funding from the banking market.

Indeed, the Rentel process is a vivid reminder that the stability of policy commitments is a key factor to successfully deliver a project. While the last details of the new regulatory framework were still under discussion, close communication with the relevant ministries on the one hand and with the lenders on the other hand allowed all parties to keep a constructive attitude and the project to keep its momentum, in the expectation that workable rules would be implemented.

In the end, financial close took place three months later than initially planned but all lenders maintained their commitments throughout the period and were ready to close as soon as the framework was formally approved by the Belgian regulator.

The project – located 40km north of Ostend – will consist of 42 Siemens turbines with an individual capacity of 7.35MW each and a total installed capacity of 309MW. The turbines use the direct drive technology (no gearbox) and are the largest and most recent model currently manufactured by Siemens, the market leader in the sector.

All turbines are connected to an offshore substation, and then export their power to Zeebrugge. The grid connection construction is built by the project but it is expected that the assets will eventually be transferred to Elia as part of the "modular offshore grid" project. First power is expected mid-2018 and full completion by the end of 2018.

Trust by all parties in the solid government support for the sector allowed the project to negotiate its commercial arrangements

TABLE 1 - DEBT TRANCHES

Tranches	Lenders	Guarantors	Amount (€m)
Commercial	Commercial lenders	–	337
EKF	Commercial lenders	EKF	208
EIB	EIB	–	250
Delcredere|Ducroire	EIB	Delcredere|Ducroire	50
Total			**845**

The construction contracts follow a market standard structure used in several previous project finance transactions: four engineering, procurement, construction and installation (EPCI) contracts were signed for the design, supply, transport and installation of, respectively: the foundations and infield cables, Dredging International and DEME Group; the wind turbines, Siemens; the 220 kV export cable to shore, ABB; and the offshore substation, STX Europe.

A full scope O&M agreement was also signed with Siemens and a power purchase agreement to sell all the power produced on the power market was signed with Statkraft. Both of these contracts are long term and last beyond the maturity of the debt raised.

The total investment amounts to €1.1bn excluding contingency. Equity is provided by a consortium of eight shareholders, directly and indirectly via the Otary partnership. It unites various Belgian specialists in renewable energy including investment and development companies Rent-A-Port Energy and Power@Sea, dredging and marine engineering specialist DEME and its subsidiary DEME Concessions Wind, green energy producers Aspiravi and Elicio, the Walloon environmental holding SRIW and Wallonia Offshore Wind as well as the Flemish and Walloon energy and utilities participation companies Z-Kracht and Socofe.

This group of shareholders highlights that with the right structure, banks can finance projects that do not rely only on utilities with large balance sheets. Lenders do also value experience of the sector and local knowledge to provide real non-recourse finance.

Debt is funded by a combination of public institutions including the European Investment Bank, EKF and DelcredereDucroire and a group of eight commercial banks and debt investors: AG Insurance, ASN Bank, Belfius, ING, KBC, KfW Ipex-Bank, Rabobank and Société Générale.

The unguaranteed tranches funded by the commercial lenders amount to €337m. The European Investment Bank will provide a €250m tranche via the European Fund for Strategic Investments (EFSI or Juncker Plan) and fund a €50m tranche that will be guaranteed by DelcredereDucroire, while EKF will guarantee a €208m tranche. ■

Footnote

1 - The so called "20-20-20" measures aimed for renewable energy sources to make up 20% of the EU energy consumption by 2020, alongside requirements to reduce GHG emissions by 20% and improve energy efficiency by 20% based on 1990 levels.

The project uses Siemens turbines. Source - Siemens