Who will fund the US offshore wind market... and how?

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Acknowledgements
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Alla Weinstein
Founder and CEO
Trident Winds

Executive summary
After a long and haphazard run-up, the US offshore wind industry finally seems poised to take off. US Secretary of the Interior Ryan Zinke’s endorsement of the sector in April 2018 was perhaps most promising sign so far of a significant project pipeline to come. And as project developers finally get down to business, one of the big questions is: who will fund their efforts? While most experts agree that there should be no shortage of takers, it is still unclear exactly who will be stepping forward and what kinds of deals will be done.

Against this backdrop, and as a prelude to the June 2018 US Offshore Wind conference and exhibition in Boston, this white paper surveys some of the main features and issues within the US offshore wind financing landscape.
Who will fund the US offshore wind market... and how?

The financing opportunity

With US renewable energy investment falling 6% in 2017\(^2\), investors will be heartened by the growing opportunity represented by offshore wind off the coast of America. Department of Energy (DoE) data from June 2017 suggests almost 24 GW of capacity could be built across 28 projects in a dozen states in coming years.

Sources of funding

Project funding for offshore is essentially provided by equity holders, which are usually the developers and owners of the projects, and debt providers, traditionally banks. This report also briefly considers the role of federal and state support mechanisms, given the importance that schemes such as the Production Tax Credit (PTC) have had in boosting investor appetite for onshore wind.

The US’s first and only commercial offshore wind farm so far, Deepwater Wind’s Block Island, was funded through a $290 million project financing package provided by Societe Generale of Paris, France, and KeyBank National Association of Cleveland, Ohio. The financing from Societe Generale and KeyBank was in addition to more than $70 million in equity funding provided by Deepwater Wind’s owners, principally an entity of the global investment and technology development firm DE Shaw Group.\(^3\)
Equity players

Most experts agree that future projects will be dominated by international financiers, at least until US equity and debt providers become comfortable with offshore wind. “There is plenty of appetite from international investors to invest in offshore wind projects in the US,” says Alla Weinstein, Founder and CEO of Trident Winds. In contrast, though, “none of the US investors or utilities understand this space,” Weinstein says.

On the equity side, the experience early on in the development of the European offshore wind market suggests power producers will dominate the financing process by far. In 2013, for example, European Wind Energy Association (EWEA, now WindEurope) figures showed 72% of investment was from power companies.

Cumulative investment in European offshore wind up until June 2013 (SWF: Sovereign Wealth Fund, OEM/EPCI: Original Equipment Manufacturer/Engineering, Procurement, Construction and Installation firm). Source: EWEA.

A review of 20 operational, in-development and proposed US offshore wind farms confirms the international nature of early equity investors, with almost 11 GW out of a total 14 GW having non-US ownership.
Who will provide debt?

Turning to debt, Jim Lanard, CEO of Magellan Wind, says European investors are again likely to take the lead. “They understand the risks so much better than US banks at this point,” he says. “But it could come from US debt [providers] that have studied this in anticipation that the market is going to grow. Very few of us anticipate that raising the debt and equity will be a problem.”

What is still unclear, however, is what kind of premium banks, and in particular US institutions, might apply to cover perceived risks.

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US offshore wind project ownership. Source: 4C Offshore.
The role of government

The US onshore wind industry has benefited significantly from the federal PTC, to the point that a rush to beat the retirement of the program is expected to have an impact on global turbine installation volumes over the next couple of years. However, the fact the PTC is due to end in 2019 means the credit will not be available by the time most upcoming offshore wind projects start to come online. It is unclear whether the industry might benefit from other forms of support, though.

Lanard notes that some early developers may be able to exercise a right in the PTC to choose an Investment Tax Credit instead, which is paid upfront when the capital expenditure is completed. For most, even this won’t be an option, though.

Outlook and conclusions

Just as the US offshore wind industry will, of necessity, inherit a good deal of European technology and know-how, so too it will likely benefit from a fair amount of European funding initially. The good news, says Lorry Wagner, president of LEEDCo, is that “all the major debt players already have a US presence.”

This is likely a good thing because it means the probable early investors in US offshore wind will be entities that have first-hand experience of the industry already, and so are able to close deals rapidly and with favorable rates. All that remains to be seen is whether US deals will follow similar structures to those seen in Europe, and how the European deal-making culture will mesh with US banking mentalities.

The industry will be hoping any issues can be resolved as quickly and easily as possible. Having got this far, it would look bad if things went awry for want of a handshake.

References


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