



Agreements, Model Contracts, and Case Practice for Offshore Wind Power Project Financing

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Abstract

Offshore wind power is a major infrastructure item for Taiwan. The European financing model relies mostly on project finance, so the Taiwanese government should establish a fair and independent third-party certification platform for offshore power, and assist the banking industry to establish a project finance strategy conducive to wind farm construction and expansion of investment and financing opportunities for banks. Topics like third-party international model authentication mechanisms, and supporting measures for financial institutions to create credit rating standards suited for existing investments by Taiwanese banks, imply further questions like banks' overall assessments, contractual review, and risk management. Thus, implementing effective risk identification and analysis, and requiring effective risk aversion strategies by the developer, are key factors for the success of project financing, and also important topics for this study. The study includes a "risk assessment report" and "contract agreement guide for offshore wind power project financing." Finally, it integrates experts' views of Taiwanese financial institutions investing in offshore wind project financing and problems they have encountered, so that financial institutions can better understand offshore wind power project financing and plan appropriate risk management strategies.



Research Findings

1. International trends

International organizations predict that by the end of 2018, global increase in offshore wind power generation capacity will reach 3.891 GW, which means 17% growth from 2018-2021 based on CAGR. This compares to only 2.8% for land-based power (GEWC, 2018; MAKE Consulting, 2018; 4C Offshore, 2018). Experts predict four major trends for 2020: (1) High growth in global capacity; (2) Large-scale development of commercialized wind farms, helping greatly reduce development costs, and improving competitiveness; (3) Declines in bidding prices by international wind farms will increase uncertainty in energy target implementation; and (4) Technical optimization and initial trials for floating wind power.

2. Risk assessment

The first part of the report explains the risk assessment process and structure, the second describes technical and planning risks, the third explains compliance risks, the fourth explains general and natural disaster risks, the fifth is a general explanation of risk assessment, the sixth explains Expected Maximum Loss (EML), and the seventh explains risk transfer countermeasures.

3. Guide to offshore wind power project financing contracts

Project financing contracts for offshore power mainly refer to model sets, such as those by the Fédération Internationale Des Ingénieurs-Conseils (FIDIC), which are applicable to European projects. Credit specialists in Taiwan can study these contracts as reference to review project credit risk.

4. Issues raised at offshore wind power expert symposia

Three symposia were held in the preparation of this report, inviting experts from banks and insurers, offshore developers, supply chain manufacturers, and government to exchange practical views, allowing us to fully understand the difficulties in financing offshore projects and their solutions. The meetings focused on ensuring contractual performance, performance insurance, reinsurance, and catastrophe insurance, suppliers' difficulties in borrowing and need for international reinsurance market assistance, and a lack of project financing talent and training. These views, the brainstorming sessions, and possible solutions can help the industry develop project financing.



Results

1. Conclusions

The first part of this study describes recent developments in the global offshore industry; the risk assessment report refers to the expert opinions at the Offshore Wind Power Project Financing Training Workshop convened by TABF and the Due Diligence Reports Guidelines for Risk Management and Insurance for Offshore Wind Farms of the Bureau of Standards, Metrology and Inspection of the Ministry of Economic Affairs; the third part translates the latest version of the FIDIC's project contract and writes a Guide to Offshore Wind Power Project Financing Contracts; and the final section summarizes the problems and issues raised at the expert forums. The purpose in synthesizing these results is to help Taiwanese financial institutions better understand offshore wind power project financing, encourage investors to manage risk appropriately, and to inform regulators of problems found.

2. Recommendations

Wind power presently involves three main topics: project financing, domestic supply chain financing, and diversifying investment sources. TABF will continue to hold seminars and expert workshops on the key issues to help Taiwan's offshore wind industry develop smoothly. The workshops can be conducted in groups led by experts to collect and summarize policy recommendations to finally complete policy proposals on key issues for reference by the government.