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INTERVIEW: Fears of an offshore wind project financing capacity crunch are unfounded, says leading banker

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Fears raised by banks and project developers that commercial lenders have insufficient capacity to finance offshore wind farms are over-exaggerated, according to Jérôme Guillet, Managing Director of Green Giraffe Energy Bankers, one of the leading advisory firms in the sector.

"There is enough money for good projects," he told Clean Energy pipeline. "The perception is that there is not because that is what banks and developers are saying all the time. Developers are often complaining about banks to hide the fact they haven't done their homework. Banks are saying it to increase the costs of their services, to make it appear that they are rare and valuable."

Guillet cited the completion last year of two billion-euro financing deals for offshore wind farms in Germany as examples of how there is sufficient debt for the right projects. Green Giraffe Energy Bankers was an advisor on one of those deals, the Eur1.2 billion, 288 MW Meerwind project in the German North Sea. Financing agreements for the Lincs and Gunfleet Sands projects in the UK were also recently signed.

One of the sources of trepidation regarding the availability of project financing is a general perception that it is sourced from a small pool of commercial banks that are currently only prepared to participate in a couple offshore wind deals per year, and to commit a maximum of Eur 50 million per deal. Many bankers and developers have claimed this level of investment is insufficient to support the increasing number of projects vying for funding in today's market.

According to Guillet, this outlook is misleading. In reality, more than 30 banks are already active in the offshore wind sector, which means that approximately Eur3 billion of debt financing is already available per year. Additionally, the claims ignore the contribution made by multilateral finance institutions such as the European Investment Bank (EIB) or German development bank KfW.

"Multilaterals can typically provide half the volume of offshore wind project finance, so suddenly we potentially have Eur6 billion per year," he said. "That's enough for deals in the market right now."

The other main concern is that banks will not increase financing capacity to match the sharp rise in large offshore wind projects that is set to take place over the next decade as the UK Round 3 build-out kicks into high gear, alongside Germany's expansion to replace its nuclear plants and additional capacity planned by France and the Benelux nations.

Guillet stated that this will likely not be a problem because banks will simply commit more resources to offshore wind as they become more comfortable with the sector, in reaction to demand from their clients.

"The fact that there are more deals will create more capacity," he said. "More banks will come in. Those that are already doing offshore wind will have the (positive) precedents and the experience and want to do more, and those that are late will be aggressive and look to get a stake in the market."

The nature of the European financial crisis may actually strengthen the financing environment for offshore wind. Guillet pointed out that the sector is far better placed to act as a safe haven for banks than it was during the 2008 crisis, partly because of its greater maturity, but also due to geographical factors and a shift in priority for large banking clients such as utilities, for whom offshore wind is the primary large-scale means of meeting renewable energy obligations.

"Ironically the crisis is helping, because offshore wind is mainly in Germany, the UK and Benelux, which have no sovereign debt problems. Banks want to finance renewable energy and would rather do offshore wind in these countries than solar in Greece," said Guillet.

"That doesn't mean deals are easy, but if you do it efficiently and with the proper due diligence, you will find financing on decent terms."

Guillet sees equity providers also becoming increasingly comfortable with offshore wind, as reflected by Blackstone's willingness to take on development and construction risk when investing in the North Sea offshore wind project Meerwind, and Danish utility DONG Energy's ability to attract pension funds and other investors to its projects using innovative financing structures.

Green Giraffe Energy Bankers is advising on six officially disclosed ongoing mandates for offshore wind projects. Guillet said the first of these that is likely to close is the 216 MW Northwind project in Belgium, which is currently in the market. The refinancing of PGM and Ampere's 25% stake in the 367 MW Walney wind farm in the UK could also go through this year, while the PNE Wind-developed Gode Wind II project in Germany could still close in 2012 if it secures a new equity investor swiftly enough.

Investors interested in offshore wind debt financing should contact Jerome Guillet, Managing Director of Green Giraffe Energy Bankers, at j.guillet@energybankers.fr.

Contact the reporter about this article: *Ronan Murphy* at ronan.murphy@bresearch.com.

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