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CAPITAL LINK
THE OFFSHORE WIND MARKET

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MARCH 2, 2021

Offshore Wind: Basic Structure

- Parties: Developer, suppliers, service providers, offtaker, financing
- Project elements
 - Turbine suppliers
 - Balance of plant – everything but turbines, incl. transmission assets
 - Operation & maintenance – Long term maintenance at fixed or variable costs
 - Grid connectivity
 - Power purchase agreement (PPA) – Can be fixed price or synthetic PPA (price hedge)
 - Permitting/water rights – Bureau of Ocean Energy Management (BOEM) & state agencies.
 - “Green” certificate

Offshore Wind: Project Finance

- Project bank loans
 - Security over project assets and contracts
 - Can be just for construction phase or entire operation
 - Can be ECA backed (e.g., related to turbine production)
 - Question re: pre-completion revenues
- Tax equity (US)
 - PTCs/ITCs; also (bonus?) depreciation
 - Consolidated Appropriations Act of 2020 – extended ITC to offshore wind facilities placed in service through 2025 (onshore 2021)
- Back leverage/mezzanine debt
 - No security over project assets
 - Stable expected cash flows

Offshore Wind: Ship Types

- Wind turbine installation vessels (WTIVs)
 - Can be highly bespoke, depending on function and project
 - Self-elevating like jack-up rig, but also self-propelled
 - Can carry and install turbines
 - ~16 total globally; more being built
- Supply vessels – Service operation vessels (SOVs), etc.
 - Not as bespoke as WTIVs, but may be dedicated to project

Offshore Wind: Jones Act

- Merchant Marine Act of 1920 (Jones Act),
 - Restricts transportation of “merchandise” by water between points in the “US” (“coastwise” trade) to vessels built and flagged in the US and owned and operated by citizens of the US where at least 75% of the interest is owned by citizens of the US (46 USC 50501).
- Is a US offshore wind farm part of the “US”?
 - National Defense Authorization Act of 2020 (NDAA) made explicit that wind farms in Outer Continental Shelf (OCS) are subject to “US” jurisdiction (previously it was only explicit for mineral projects).
 - Jan. 27, 2021: US Customs and Border Protection (CBP) determined that offshore wind farms are subject to Jones Act

Offshore Wind: Jones Act (cont.)

- What is “merchandise”
 - Exception for “vessel equipment”: “necessary and appropriate for the navigation, operation or maintenance of the vessel and for the comfort and safety of the persons on board.”
 - CBP ruling practice since 1976 applied “mission of the vessel” standard to vessel equipment
 - In 2019, CBP revoked its “mission of the vessel” standard, leading to uncertainty
 - President Biden has expressed support for Jones Act; results to be seen
- Jones Act WTIVs?
 - No current Jones Act WTIVs. One is under construction for Dominion Energy (Charybdis)
 - Conversion of existing Jones Act vessels under consideration
- Pure installation vessel may not need to be Jones Act qualified

Offshore Wind: Vessel Finance

- Three (or four) parties: Vessel lender, (project lender,) vessel owner, charterer/developer
- Because bespoke, more likely to be funded on project finance basis
 - Vessel owner seeks limited recourse loan supported by income from project; vessel lender looks for corporate support where charter period is less than that of loan – true project finance terms require long term income
- Quiet enjoyment agreement
 - Crucial to project that WTIV continue in use even upon owner default
 - Vessel lender's priority is to preserve income; unlikely to foreclose upon owner default if charterhire continues to be paid
 - Solution: Quiet enjoyment agreement (direct agreement among vessel lender, charterer and sometimes project lender) to protect income for vessel lenders and continuing services to project company

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