

Block Island Offshore Wind, US

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Offshore wind development in the US has been an elusive pursuit.

Only Deepwater Wind has closed an offshore financing – for the 30MW Block Island wind project off the coast of Rhode Island – while legal challenges continue to thwart other proposed projects.

The DE Shaw-backed Deepwater Wind closed the Block Island financing on 27 February 2015, with \$268 million in term debt from Société Générale (SG) and Key Bank. Deepwater now expects to begin installing turbines by mid-2015, and plans to begin operations by end of 2016.

SG previously helped finance multiple western European offshore wind projects – the lone region to close offshore financings before Deepwater. But Block Island is the first offshore wind financing for the Ohio-based Key Bank.

The term debt for Block Island matures in December 2021. SG took a \$218.5 million ticket, while Key Bank took \$49.5 million. SG also provided \$29.5 million in letters of credit, which also has a six-year tenor.

DE Shaw sought financing from relationship banks. “The advantage of a project of this size is that we always knew financing could be done with just a few banks,” said Jeff Grybowski, Deepwater Wind’s chief executive officer in Providence, Rhode Island.

Deepwater Wind contributed \$70 million cash equity. It holds an undisclosed amount of tax equity, but is open to selling it.

DE Shaw, Deepwater Wind’s majority owner, formed Deepwater Wind in 2005 with an offshore project in mind. SunEdison, after buying First Wind in early 2015, owns a small stake in Deepwater Wind.

New contracting scheme

In 2008 Rhode Island announced a procurement for 30MW off of Block Island, which fronts the Atlantic Ocean, about 16km from the mainland. That same year, the state named Deepwater Wind preferred bidder.

Deepwater Wind applied for state and federal approval in October 2012, and [received all key permits](#) by September 2014.

Creating a contracting scheme, however, was more challenging. Deepwater Wind lacks an engineering, procurement and construction (EPC) wrap, which is common in US power finance, notes Ben Koenigsberg, a New York-based partner at Chadbourne & Parke in New York, which advised the lenders. Instead, each contractor is responsible for its portion of work. “By nature, in offshore wind you deal with multiple contractors,” Koenigsberg said.

Lenders prefer EPC-based financings, but not all power and renewables projects have such contracts, and SG has experience with such multiple-contractor schemes in European offshore wind projects.

“We had to combine experience from both the US and Europe in order to put together a team that could build the project,” Grybowski said. “That alone took us several years.” Paris-based Green Giraffe, which has experience in European offshore wind, advised Deepwater Wind on the structuring of the contractor contracts.

But the reliance on European offshore experience didn’t expedite financing for Deepwater Wind. The novelty of US offshore wind – and the country’s specific regulatory regime – posed unique challenges.

“The offshore turbines are almost three times the size of the largest available terrestrial turbines, the construction site is inaccessible during many times of the year and permitting for offshore wind involves different agencies than land-based projects,” says John Sachs, a Washington, DC-based partner at Latham & Watkins, which advised Deepwater Wind. “Combine all these things, and there were lots of twists and turns that had to be understood to get the financing in place.”

Legal hurdles

Compared to other proposed offshore wind projects, Deepwater Wind’s legal challenges were less persistent, and were resolved more swiftly.

In 2009 the Rhode Island Public Utilities Commission (PUC) rejected Deepwater Wind’s initial 20-year power purchase agreement (PPA) with National Grid, after deeming the proposed power price too high. A year later, PUC approved a revised PPA, which set Block Island’s power price at \$0.24 per kWh in the first full year of commercial operations.

The average retail price of power in Rhode Island was \$0.18 per kWh as of January 2015, according to the US Energy Information Administration.

Third parties subsequently challenged PUC’s approvals, but the Rhode Island Supreme Court upheld the PPA in 2011.

For much of 2014, the [Cape Wind](#) project off the coast of Massachusetts was poised to be the first US offshore wind farm to close financing. Cape Wind developer Energy Management Inc. (EMI) had lined up most of the project debt, but the project was derailed in early 2015 after its [offtakers terminated the PPAs](#). Cape Wind has battled relentless legal challenges throughout its 14-year development.

Block Island is a modest-sized project – a pilot project – whereas Cape Wind is planned as a 468MW generator (of which 363MW is planned for phase one). Block Island also benefited from greater state leadership than Cape Wind; Rhode Island chose the site for Block Island, while EMI selected Cape Wind’s site. Much of the backlash against Cape Wind arose from the project’s location.

But even Fishermen’s Energy, developer of the 25MW Atlantic City project off the coast of New Jersey, continues to face its share of legal complications despite its small scale.

The New Jersey Board of Public Utilities (BPU) has [twice rejected](#) the Atlantic City project, citing high energy prices. And the BPU hasn’t budged since. In response to the state appellate court’s ruling, which said the BPU must reconsider its previous rejections of the project, the BPU this year responded to the court by listing reasons for why its rejection should be upheld.

While Block Island, Cape Wind and Atlantic City have all encountered legal challenges over energy prices, Grybowski said that Block Island “had substantially more public support.” The Conservation Law Foundation had initially opposed Block Island’s PPA approval by the PUC, but the foundation became a supporter after environmental permitting concerns were addressed.

Alstom is Block Island’s turbine provider. Contractors include Fred Olsen (jack-up vessels for turbine installation), LS Power (cables) and Weeks Marine (foundation installation services). Mott MacDonald was the independent engineer.

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