Abstract

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Title
Sharing Risks – or passing the buck?

Topic/sub-topic
Impact of construction risks and project risks on availability of non-recourse project finance.

Abstract
Vestas is the world's leading supplier of Wind Power Plants. When two on-going projects off the coast of Great Britain have been completed, Vestas has installed around 475 MW of offshore wind power in just four years. This means that Vestas has built up the greatest pool of off-shore experience in the wind power industry.

On-shore developments during 10 years
10 years ago Vestas' main business was made up by single turbine sales and small wind farm projects (typically 5-10 MW each). Our clients were mainly private individuals or private limited partnerships. Contracts were mainly supply contracts excluding supply of the necessary electrical infrastructure. Projects were normally financed through full recourse loans or loans taken by sponsor on his balance sheet. Warranty periods were limited to 1-2 years.

Today our main business is made up by financially strong buyers (utility type or IPP-type of companies). Turn-key contracts are common. In many markets non-recourse project finance structures are quite common. Warranty periods often extend up to 5 years.

The trend towards bigger projects are supported by following evidence: During 1998 Vestas made 5 announcements to Copenhagen Stock Exchange for contracts exceeding DKK 250 mill each, with an average project size of 34 MW. During 2004 Vestas made 20 announcements for contracts exceeding DKK 250 mill each, with an average project size of 72 MW. In 1997 Global Average Annual size of WTG was approx. 550 kW. In 2004 average WTG had grown in size to approx. 1,2 MW [1]

Off-shore developments
Off shore business is still in its infancy. Sponsors are financially strong, but not a single project has yet been financed on project finance basis. This is partly due to the fact that bankers are reluctant to consider project finance for new technology. And off-shore projects also represents new challenges in terms of operational risks. The fact that insurance coverage available for off-shore projects leaves much to be desired - compared with onshore insurance cover - is another reason for the lack of project finance. Further banker's always looks for adequate guarantees that the projects will be executed on time and on budget. Thus sponsors must either commit appropriate cost overrun facilities or the sponsor must signed strong EPC contract with acceptable supplier.

Risk sharing
Project finance has worked well for the wind industry on-shore. But lack of off-shore project finance may limit the future growth potential for off-shore business. The risks involved in off-shore projects simply requires that everybody co-operates; i.e. sponsors, suppliers, bankers, export credit agencies and the private insurance market.

Careful risk analysis is required, followed by appropriate risk mitigation / contingency planning. Balanced distribution of risks is required - and acceptance that risks and rewards must also be balanced. Only if everybody cooperates shall the off-shore business be able exploit its full potential. Risk sharing is a matter of creating a win-win situation. If we continue trying to pass the buck to the other parties involved, then everybody shall loose business potential.

Reference List
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