Taiwan’s Yunlin wind farm running against time

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The sponsors and lenders of the beleaguered NT$94 billion ($3bn) Yunlin offshore wind farm (OSW) need to find concrete solutions before end of March 2023 to save the once-marquee Taiwanese project from falling in the lapse of potential insolvency, *IJGlobal* understands after speaking to multiple sources close to the situation.

The project, whose delays have already doubled the costs with sponsors also injecting 3 times their original planned equity, need to start installing more wind turbines from April (2023) – when the climate conditions turn in favour of the project – to push the distressed project towards a positive direction.

Due to the unique location of the project (and Taiwan), April to September is the only period that allows wind turbines installation. Because of this limited campaign period, any delay would incur deeper setbacks for the project.

"The utmost agenda is to install more wind turbines for the project to become beneficial to all stakeholders," a project insider told *IJGlobal*. "Once the wind turbines commence operations and generate revenue, there would be a cashflow waterfall from the lenders to the sponsors," the source added.

"The lenders would not want to take losses on principal and interest of the loan. On the other hand, sponsors bear the sunk cost, but a fresh injection of capital from them shall entail at least minimum economic value. Both sides would have to reach a common ground," said the source.

The project has already faced massive delays from its original scheduled commercial operations date in 2021 due to technical issues and Covid-19. The wind farm is currently 20% complete, meaning 16 out of 80 wind turbines were installed, the same source told *IJGlobal.*

The above source and 3 other bankers said starting the work during this campaign period is crucial for the survival of the project.

Saving Yunlin

While saving the project is the first obvious choice of all stakeholders, hectic negotiations are believed to be underway between sponsors and lenders for offering enough sops to pull the project back on track.

In the absence of no sufficient cash for debt repayment, 3 sources said the stakeholders are exploring the following options:

- extend the 18-year tenor of the loan facility by 2 or more than 2 years
- reopen the drawdown facility
- inject fresh equity

- get the government to extend the PPA and waive any penalties for the delays
- get ECAs to extend the tenor of their coverage

Yunlin's NT$70.5 billion debt package had an 18-year tenor. A tenor extension allows the sponsors to extend the repayment schedule, which grants the sponsors a higher equity internal rate of return and a more flexible debt service coverage ratio.

The other solution involves reopening the drawdown facility that currently has a drawstop in place, *IJGlobal* understands. Discussions are also on with sponsors to inject more capital based on the availability of the revival of the drawdown facility, *IJGlobal* has learned.

The 19 original lenders have formed a working group and hired external consultants for the discussion.

According to multiple sources, the sponsors and the government have begun discussions to rescue the project since October 2022. The government is willing to be lenient by minimising the penalty for project delays, although a PPA extension is unlikely, first source told *IJGlobal.*

Although, some other sources did not rule out the possibility of the government agreeing to a PPA extension given the significance of the project and its cascading effect if it goes bad. Some sources also pointed out that unflinching government support may be tricky for a private project ahead of the nation’s presidential election in 2024.

In addition to these potential solutions, ECAs are also undergoing survey and evaluation to explore options such as extending the tenor of their coverage, *IJGlobal* understands.

There is also possibility of lenders taking a haircut if the debt package is restructured.

Delays and causes

Global Infrastructure Partner-backed Skyborn Renewables, previously the OSW business unit of WPD, is leading the consortium in developing Yunlin. The 640MW project is 8km off the Yunlin County coast, divided into 2 phases – 350MW and 290 MW.

The Taiwan Strait has a relatively narrow window for OSW's installation work, starting from April to September, as it is prone to strong wind, severe weather conditions, and rampant typhoons. The project would face further delays and cost escalation if it were to miss the campaign period.

One of the difficulties in construction was the high demand for a limited number of special vessels worldwide that are used for wind turbines installation in midsea. Excluding China, there are currently only about 10 turbine-installing ships and a few dozen of commissioning service operations vessels worldwide, a banker previously told *IJGlobal.*

Besides, Covid-19 also played a factor in the delays. The installation operation would have to shut down whenever crew members on board tested positive.

Other factors also added to the cost escalations. For instance, EPC contracts with a fixed price can absorb construction risks and provide liquidated damages if delays occur. But offshore wind power projects are structured in multi-contracting with different subcontracts, a project insider previously told *IJGlobal*. "As soon as delay happens, there will be extra costs," the project insider added.

On its part, the sponsors have booked and secured the installation capex for 2023 but there is insufficient liquidity to fund further installation works, such as paying contractors' invoices and mobilising vessels, *IJGlobal* understands.

When contacted for comment, Skyborn spokesperson replied, "we are working hard to ensure the success of this project with the cooperation of all parties. Please understand that we are not in the position to comment further until all discussions are complete."

Closing the deal

In April 2018, the Ministry of Economic Affairs (MOEA) awarded 1GW of grid connection capacity to then WPD's Yunlin and Guanyin. State-owned Taipower is the offtaker under a 20-year PPA, signed in December 2018.

Shareholders of the project company Yunneng Wind Power comprised:

- Starwind Offshore (Japan) – 27%
  - Sojitz
  - Chugoku Electric Power
  - Chudenko
  - Eneos
  - Shikoku Electric Power
- Skyborn Renewables Taiwan – 25%
- Electricity Generating (EGCO) (Thailand) – 25%
- TotalEnergies (France) – 23%

The project in May 2019 achieved financial close with more than 19 banks participating in the NT$70.5 billion debt package. The loan syndication comprised 9 tranches, an 18-year tenor, and a pricing rate of 240bp above 3-month Taibor, stepping down to 200bp at COD.

ECAs were:

- Atradius
- EKF
- Euler Hermes

TotalEnergies has directed *IJGlobal* to Skyborn for comments. Other sponsors declined to comment.

IJGlobal has approached Atradius, BNP Paribas, Cathay United Bank, Credit Agricole, DBS, EKF, Euler Hermes, ING, Linklaters, MUFG, Natixis, Societe Generale, SMBC, Standard Chartered, and White & Case for comments.

IJGlobal has also sought verification from the Energy Bureau under the MOEA but has not received a reply.

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