

# Desire straits: Taiwan offshore wind

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## Baron Laudermilk

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IJGlobal held a roundtable in Taipei in May 2017, sponsored by Tsar & Tsai Law Firm, which explored the reasons why offshore wind projects in the Taiwan Strait have become so attractive to international companies.

The roundtable participants were:

- Baron Laudermilk, the Asia editor of IJGlobal (chair of the roundtable)
- Chun-Li Lee, deputy director general, Bureau of Energy of Taiwan
- Robert Tsai, chairman and CEO of Swancor Group
- Ian Hatton, chairman, Yushan Energy
- Billy Betts, head of project finance, Cathay United Bank
- Matthias Bausenwein, general manager Asia Pacific, Dong Energy
- Sung Woo Yang, head of Taiwan, Equis Fund Group
- Sean Mcdermott, general manager at Northland Power Development (Taiwan)
- Andrew Kwok, senior vice-president, Partners Group
- Kok Leong Toh, senior vice-president, Partners Group
- Janice Lin, partner, Tsar & Tsai Law Firm
- Sophia Hsieh, partner, Tsar & Tsai Law Firm
- Randy Tsai, partner, Tsar and Tsai Law Firm
- Ryan Chua, associate director, Macquarie Capital
- Cheng-Hu Hu, head of Taiwan, K2 Management

## Optimism in the market

Taiwan's nascent offshore wind sector is starting to attract a lot of international attention. Taiwan's government wants renewable energy to produce 20% of the island nation's power by 2025, and intends offshore wind to play a critical role in hitting that target.

High wind speeds, particularly in the Taiwan Strait, make an ideal resource to exploit, and the government set targets this summer of increasing the country's wind energy generation capacity by 32% to 1.3GW by 2020.

The offshore wind sector is booming in some parts of the world, particularly Europe, where economies of scale have seen successive round of projects get larger and cheaper to develop. Which makes Taiwan's embrace of the technology savvy.

Already at least 22 offshore development proposals have been made by international sponsors to build offshore wind farms. Those developers are now in the process of seeking environmental approvals.

All attendees of the roundtable were confident about the future of Taiwan's offshore wind market, and expected to see lots of opportunities

for private companies over the coming years.

Matthias Bausenwein, general manager Asia Pacific, DONG Energy, said that he has very little doubt that the market will be successful. The Danish utility has been a trail-blazer for offshore wind in Europe, finding ways to reduce costs and build ever larger wind farms in countries such as the UK, the Netherlands and Germany, and clearly has similar plans for Taiwan.

“We are willing to take some of the risk to get the market off the ground, because we have faith that the Taiwanese government is setting up the right environment to ensure the success of the industry”, said Bausenwein. “In fact we have been using balance sheet financing to bring confidence in the sector. When global investors and developers see us using our own capital in the market, they will follow us to Taiwan,” he added.

The use of balance sheet financing by DONG in Europe has also allowed it to underbid rivals which are dependent on debt financing, leading it to build up a dominant position in that market.

Ryan Chua, head of Macquarie Capital, Taiwan, also sounded bullish about the market and said he saw it as stable and ripe for international investment.

Part of reason the government is so keen to promote renewable energy development, and support international investment in offshore wind as a catalyst to achieving this goal, is because it is looking to phase out the use of nuclear power. President Tsai Ing-Wen has set a goal of bringing nuclear power’s share of total power supply down from 14% today to zero by 2025.

Deputy director general of Taiwan’s Bureau of Energy (BOE) Chun-Li Lee pointed out that the government is promoting a variety of initiatives to help grow the offshore market. It has offered subsidies for development costs of demo projects, while utility-scale projects benefit from feed-in tariffs (FIT) that guarantee a fixed price for electricity over a period of 20 years.

### **Development permits**

A bone of contention for many market participants is the time-consuming task of acquiring all the permits needed for an offshore wind development.

There are seven permits that must be acquired before construction can commence, and most local banks will not agree to finance a wind farm that has not been granted all the permits. The whole permitting phase can take anywhere from 1-2 years.

The chairman of Swancor, Robert Tsai, said the permitting process is slow and tedious, and that acquiring government permits requires a lot of paperwork. One of the largest challenges that developers like Swancor face is securing the environmental impact assessment (EIA) from the BOE.

Taiwanese authorities evaluate the submitted EIAs on a first-come, first-serve basis. Several of the roundtable participants pointed out that if the same zone of potential has more than two applications, the first one who registers EIA and gets approval from the BOE will have priority.

Tsai said that his firm has already seen a delay in the financial close of the Formosa I Phase II wind farm, located in the Taiwan Strait, due to waiting for environmental permits.

Not all seem phased by the permitting process however. Ian Hatton, the chairman of Yushan Energy, an international renewable developer with a focus on Taiwan, said that the permits are not a major obstacle.

“Working in Taiwan’s offshore wind energy sector is about patience,” Hatton said. “50% of the time we are just waiting for the permits to come in. It isn’t hard. You just have to wait, work with the regulators, and it will pay off”.

### **Financing projects**

Something certainly not standing in developers’ way is a lack of available financing. Institutional investors are showing interest in taking equity in operational projects, giving comfort to developers, and a large number of banks are keen to provide debt to these projects.

Cathay United Bank’s head of project finance, Billy Betts, said that his bank is very keen on building its project finance department, particularly to ensure that the bank becomes a specialist in financing debt for offshore wind farms in the Taiwan Strait.

“I have seen from international banks that there is appetite towards offshore wind farms in Taiwan,” Betts said. “European banks who have

experience in financing offshore wind projects appear especially keen,” he added.

Betts also discussed Cathay United Bank’s role in financing Swancor’s turbines in 2016. Cathay United Bank led the NT\$2.5 billion (\$76.85 million) syndicated loan to finance the construction of two wind turbines off the coast of Taiwan. The five-year loan to Swancor subsidiary Formosa I Wind Power Company was provided by a consortium of arrangers that included Cathay, EnTie Commercial Bank (a local Taiwanese bank) and French lender BNP Paribas.

Global investment managers are also eyeing up the sector. Andrew Kwok, senior vice-president at Partners Group, one of Asia’s largest renewable energy investors, said that his firm is particularly interested in investing in offshore wind farms in Taiwan that are within three to six months of financial close. It plans to invest in projects once the financing is in place, and all permits have been obtained.

Sung Woo Yang, head of Taiwan at Equis Fund Group said that he has already seen significant interest from institutional investors and expects this to continue as more wind farms become approved by the government. Equis itself is involved in the development of one pipeline project though it is still in its nascent stages.

Yang said Equis Fund is in the latter stages of finalising its EIA, which should be submitted to Taiwan’s Environmental Protection Agency (EPA) by mid-august, with approval hopefully following in December. After EIA approval, design work, the collection of data on wind speeds, and additional surveys need to be completed. According to Yang, financing is probably four to five years away, with financial close in 2022 or 2023.

While international banks and investors have been clamouring for roles on upcoming projects, local state-owned banks have been noticeably absent from projects so far.

Robert Tsai of Swancor said that he was disappointed that no state-owned banks participated in the loans for Formosa 1. Tsai said that he went to all eight major state-owned banks, including Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, and Taiwan Business Bank, but ended up turning to local private lender Cathay United Bank to be its financial adviser.

Betts said it’s just a matter of time before the state-owned banks and more private Taiwanese banks participate on deals. He mentioned that he has heard interest from most of the Taiwanese banks regarding offshore Taiwan wind, and once the market begins to mature we should begin to see those financing projects.

The government though is interested in finding policies to stimulate local bank participation.

Delegates at the roundtable said that they have been hearing that BOE is proposing to the Ministry of Economic Affairs (MOEA) to mandate local Taiwanese state-owned banks to lend a certain amount of capital to upcoming offshore wind projects. The measure would ensure that developers have access to the Taiwan dollar for funding, which should prevent delays to those projects which require a natural hedge from local currency debt.

“This is an interesting idea, and a show of force from the government. But local banks and insurance companies, along with global financial institutions are keen on lending to these projects, so it appears to me that this may be more of just the government showing how serious it is over anything else,” said one executive.

### **The FiT is compelling**

The BOE under Taiwan’s MOEA announced its FiT rates for PV power stations, rooftop PV systems, and onshore and offshore wind earlier this year, and attendees of the roundtable seemed pleased with the latter.

Janice Lin, a partner in Tsar & Tsai Law Firm, said that the FiT rate is much better in Taiwan than it is in other emerging countries, and the MOEA’s clear regulations give comfort to international companies.

“The FiT in Taiwan was purposely set at a good rate to attract international developers, investors and banks. I certainly think this will continue to be the same in 2018, and we should see more international players into this market in the next year or two,” said Lin. “In India and other emerging countries, FiTs have dropped and developers must focus on acquiring a PPA with a corporate, but not in Taiwan,” she added.

Hatton added: “My view is that the Taiwan FiT is good for encouraging Taiwan’s nascent offshore wind industry and we are positive about it.”

“I also believe that the FiT is already attracting the investment the industry needs and it is commendable that Taiwan has taken the policy steps it has to get the ball rolling. It is now up to the experienced developers to deliver environmentally responsible and properly technically considered projects to vindicate the political decision to open Taiwan’s offshore wind resource for development,” Hatton added.

The delegates discussed how the FiT will change in 2018, as the MOEA plans on adjusting the rate every year, but due to the vocal government support and keen interest from global offshore wind players, they expect the FiT to stay around the same level.

### **The PPA: problems and challenges**

Swancor is to date the only offshore wind developer to have signed a PPA with state utility Taipower, and that deal was signed in 2015. Since then, all the other companies who are working on developments have not made it passed the environmental approvals stage. Tsai, the chairman and CEO of Swancor, said that Taipower had no interest in negotiating a PPA with Swancor, and that instead the terms were set in stone from the beginning.

Sean McDermott, the General Manager at Northland Power Development (Taiwan) mentioned that the PPA is far different than ones you see in the Europe and North America, where they can be over 80-pages and consist of very specific clauses relating to protect various parties.

In contrast Taiwan's offshore wind PPA is lean, at around 12 pages. "Many parts of the PPA aren't clear, and it's completely non-negotiable. We aren't sure where it's going in the future," said one roundtable attendee. But Lin said that her team and other advisers are working with Taipower to improve the PPA and ensure that it works with private lenders and developers.

"It's important that we continue to work with Taipower, and to ensure that the PPA is strong enough and clear enough to be accepted by international commercial banks," said Lin.

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