

INTERVIEW

Supporting Offshore Electricity Transmission Project for Offshore Wind Farm in United Kingdom

First Project Financing for European Electricity Transmission Sector Project

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The Japan Bank for International Cooperation (JBIC) signed in March 2021 loan agreements in project financing (PF) with Diamond Transmission Partners Hornsea One Limited (DTPH1), a British company invested in by multiple entities including Mitsubishi Corporation and Chubu Electric Power Co., Inc., for an offshore electricity transmission project for the Hornsea1 offshore wind farm in the United Kingdom (the UK).

First PF for European Electricity Transmission Sector Project

In 2019, the government of the UK amended the Climate Change Act, committing a legal target of reducing greenhouse gas emissions to net zero by 2050 and is also actively promoting the introduction of renewable energy. The UK is leading the world especially in the attainments of introducing offshore wind power generation.

In this project, which is in line with the energy policy of the government of the UK, DTPH1 owns and operates facilities for offshore electricity transmission connected to the Hornsea1 offshore wind farm, the largest of its kind in the world with a total generation capacity of 1,218MW, located off the Yorkshire Coast in the southern North Sea, and transmits electricity to Great Britain over 25 years.

Kato explains: "In the UK, power generation companies have had to be separated from transmission companies by law since the 1990s, and this was the twenty-third case of tenders for selecting owners that transmit electricity generated by offshore wind farms to the UK. Offshore wind farm projects are increasing in size and getting further off the coast for better locations. The Hornsea1 offshore wind farm is located 120 km off the coast with 174 wind turbines. Accordingly, its transmission facilities have to be large-sized and cover a long distance, and the duration of the project also stretched out, at which point JBIC was contacted for financial support for the project.

Mitsubishi Corporation is the most experienced entity in offshore electricity transmission projects in the UK, and this was the second such project in the UK for Chubu Electric Power. The technological know-how gained through the project is expected to be utilized in businesses in third countries such as Japan and other countries in Asia where offshore wind power generation is increasingly adopted.

JBIC has been supporting projects in the power sector, mostly in the power generation sector, including two financings for offshore wind power generation projects in the UK, but this was JBIC's first PF for a project in the European electricity transmission sector."

Hurrying in PF Term Negotiation to Win Tender for Offshore Transmission Owner

In July 2019, Mitsubishi Corporation asked JBIC to support them for the tender for the ownership and operation of transmission facilities for the Hornsea1 offshore wind farm.

In the UK, power generation companies build transmission

facilities as well as power generation facilities, and transmission companies that won the tender purchase the transmission facilities and own and operate them for a long term.

Kato looks back on the project: "The bid criteria included a financial institution's commitment. We managed to conclude our loan policy for this project before the bid deadline and issued a commitment letter. In a very tight schedule, there was a struggle to make internal and external arrangements to work up the PF, which would be JBIC's first in the European electricity transmission sector. We examined the project risk based on past PF and negotiated terms and conditions while learning legal restrictions unique to this project.

After DTPH1 became the preferred bidder for the project in February 2020, we had to stop having in-person meetings due to the spread of COVID-19, and we communicated online only. It took a while to get used to it, but it was rewarding to be involved in the first PF for a project in the European electricity transmission sector. Right before the closure, we had conference calls with the sponsors on a daily basis to negotiate the contract and signed the loan agreements almost as scheduled despite the COVID-19 pandemic."

Strengthening Support for Electricity Transmission and Distribution Projects Whose Importance has Heightened

In its Infrastructure System Overseas Promotion Strategy 2025, the government of Japan expressed its intention to support Japanese companies for global energy transition and decarbonization. The government is also pursuing a policy of actively utilizing public financial systems for renewable energy-related overseas investment.

Kato expresses his aspirations and remarks: "As renewable energy is being adopted at an accelerated pace globally, development of transmission systems is imperative to make maximum use of the electricity generated from renewable energy and the importance of electricity transmission and distribution projects is increasingly heightened. However, Japan is behind Europe in renewable energy adoption and nearly 10 years behind the UK in terms of its targeted level and attainments of offshore wind power generation. Japanese companies have to improve their competitiveness in that developers and operators are growing with a wealth of project experience in advanced regions such as Europe including the UK. In this circumstance, in order for Japanese companies to acquire and accumulate technological know-how through overseas electricity transmission and distribution projects and make use of the know-how in offshore wind power projects in Japan as well as in other countries including Asian ones, JBIC will, as Japan's policy-based financial institution, further support electricity transmission and distribution projects that promote renewable energy adoption and utilization. Also, JBIC will provide financial support to assist Japanese companies in the overseas expansion of their business toward the realization of a decarbonized society in a wider range of sectors and technologies such as hydrogen technology, which is expected to develop significantly."