INTERVIEW

Supporting Offshore Electricity Transmission Project for Offshore Wind Farm in UK

Project Financing for Project That Involves Japanese Company

Interview with NAKASHIMA Keisai,
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The Japan Bank for International Cooperation (JBIC) signed in November 2023 a loan agreement with Triton Knoll OFTO Limited (TK), a British company invested in by TEPCO Power Grid UK Limited, a subsidiary of TEPCO Power Grid Incorporated (TEPCO Power Grid), and a British infrastructure investment manager, Equitix Investment Management Limited (EIM). JBIC provided project financing (PF) amounting to up to approximately GBP259 million (JBIC portion) for an offshore electricity transmission project for the Triton Knoll offshore wind farm in the United Kingdom (UK). The loan is co-financed with Sumitomo Mitsui Banking Corporation, Societe Generale, Barclays Bank PLC, and Aviva Life & Pensions UK Limited, bringing the total co-financing amount to approximately GBP523 million.

Second PF for UK Offshore Transmission Project

In this project, TK will own and operate offshore electricity transmission facilities with a total generation capacity of 857MW that are connected to Triton Knoll Offshore Wind Farm located 32 km off the Lincolnshire Coast in the UK. TK will transmit the electricity generated to Great Britain for 23 years.

"The UK government amended its Climate Change Act in 2019, setting a legally binding target of reducing greenhouse gas emissions to net zero by 2050 and promoting the introduction of renewable energy. As part of this energy policy, it has been constructing offshore wind farms to achieve a total capacity of 50 GW by 2030. As of September 2023, wind farms with a total capacity of about 22.5 GW are either operating or under construction.

So far, several Japanese trading firms and electric utility companies have participated in offshore wind farm projects in the UK, and JBIC has provided PF for some of the UK projects that have involved Japanese companies: two offshore wind farm projects, one offshore electricity transmission project, and one UK-Germany interconnector project. This is the second offshore transmission project in the UK to which we provided a loan through PF," says NAKASHIMA, explaining the initiatives by the UK government and the achievements of JBIC.

Finalizing Contract on Tight Schedule

In early 2021, TEPCO Power Grid contacted JBIC about a loan for this project, and in October of the same year, it obtained the preferential negotiation right.

In the UK, the roles of power generation and transmission companies are divided. It is common that after a generation company constructs transmission facilities, a transmission company that has won the negotiation right in the bidding acquires the facilities and starts operation. In this project, the transfer of the asset to TK was scheduled for the spring of 2022. However, due to a problem, the asset transfer and the operation's start were significantly delayed.

"The start of the full-scale loan negotiation was delayed until 2023, when a resolution was in sight. We needed to transfer the asset by the year end, and when we planned backward, we had to conclude the loan agreement in a short period of time. However, for the sponsor, TEPCO Power Grid, it was the first overseas transmission project. EIM had extensive experience in investing in offshore wind farm transmission projects in the UK, but we had never worked with them before that.

Therefore, we tried to make our view understood and function as a policy-based financial institution and pursued negotiations based on our track record of PF in Hornsea1 Offshore Electricity Transmission Project in 2021. In the end, we accelerated the negotiations and reached a basic agreement for the shared goal of transferring the assets within the year, although many minor discrepancies came out in the course of the online discussions between Tokyo and London.

When considering a loan for this project, we checked many points besides the standard project evaluation, such as whether problems are properly dealt with and whether the project can be operated for 23 years in the current state," NAKASHIMA recalls.

On December 5, 2023, the transfer of the ownership of the electricity transmission facilities was completed and the operation of the offshore power transmission project started. By leveraging the knowledge and experience acquired from the operation of this project, TEPCO Power Grid will accelerate the expansion of overseas projects, reinforce the power transmission grids in Japan, achieve net zero emissions, and reduce costs.

Improvement of Transmission Grids Is the Key to Carbon Neutrality

NAKASHIMA talks about the future initiatives as follows:

"Although it was my first experience in structuring a project using PF, I managed to contribute toward supporting a quality energy and electricity infrastructure project that involves a Japanese company, in line with the governmental policies of strengthening the international competitiveness of the Japanese energy industry and supporting the transition to carbon neutrality and decarbonization.

Since the areas suitable for introducing renewable energy are limited, the strengthening of networks to transmit electricity from such an area to a remote city will be a big theme in achieving carbon neutrality. As in this project, these sites are often located off the coast, where construction work is not easy, and are introducing high-voltage direct-current transmission facilities with reduced electric power loss. For Japanese companies that aim to participate in a project, the more extensive the transmission grid and the higher the voltage, the bigger the investment scale will be.

JBIC will continue to provide financial support not only to expand the overseas expansion of Japanese companies but also to make use of the technology and know-how acquired through the project to strengthen the power lines in Japan by drawing on its various financial facilities and schemes for structuring projects and by performing its risk-assuming function."