Ocean Energy Forum

Draft Strategic Roadmap

Key Recommendation 4.3:

Enable a packaged approach to finance for individual farms:

A Gap Fund for First Projects

Prepared for:

Forum Open Session Conference

23-24 February 2016, Edinburgh

OEF Session 1

Day 1 Tue 23 February 2016 1445-1630hrs

Menteith Room Level -1

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Context;	Following publication of the Forum's *Draft* Strategic Roadmap in October 2015 (where 6 key recommendations were outlined to help develop the ocean energy sector), the Forum has been tasked with producing action plans for each recommendation to help realise the aims and ambitions of the Roadmap. The actions plans will be reflected in the final Strategic Roadmap due to be published in November 2016. **Key recommendation 4.3** Ocean Energy projects are innovative. Uncertainties in installation times or total electricity production mean that a significant level of financial risk remains, preventing access to debt from commercial banks. In Edinburgh, we will discuss proposal options for a model for combining different sources of funding into a single project (fund).
About this Paper;	This paper proposes setting up a fund based around the REIF/EIB InnovFin model. A gap funder aiming to leverage private and other public sector funding. Delivered by a team with direct experience of the Ocean Energy sector. The paper and the associated questions will be discussed at the Forum's open session conference in Edinburgh. All Forum members are welcome to participate and contribute to Session 1 discussion.
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Ocean Energy Forum – Finance Workstream
Draft Paper on Action 4.3 OEF Roadmap
"A Gap Fund for First Projects" 12 February 2016

PROPOSAL FOR AN EFFECTIVE INTERVENTION IN THE OCEAN ENERGY SECTOR TO DELIVER DEMONSTRATION PROJECTS: A GAP-FUND FOR FIRST PROJECTS

The Ocean Energy Forum (OEF) *draft* Strategic Roadmap (October 2015) identifies demonstration projects as crucial to the sector's development and recommends industry and EU Member States develop an approach to financing single demonstration/pre-commercial projects.

This paper proposes setting up a fund based around the REIF/EIB InnovFin model. A gap funder aiming to leverage private and other public sector funding. Delivered by a team with direct experience of the Ocean Energy sector with an announced fund of about €300m, with no minimum deal size, and the ability - where judged appropriate - to meet some or all of the reasonable deal costs (e.g. due diligence).

Crucially, the Fund should be flexible enough to enable a variety of ocean energy project to reach financial close, and follow guidance objectives rather than rigid processes and threshold-based criteria.

Key features of the fund are hereafter presented for discussion

Primary objectives of the fund:

- deploy the first ocean energy demonstration projects to kick start the sector
- bring the sector closer to commercial financing
- accelerate and secure the growth of a sector which contributes to the decarbonisation, diversification and security of the European energy generation mix

Secondary objectives:

1. maximise the leverage arising from each investment
2. stimulate the development of a European supply chain which retains and enhances high-end manufacturing in Europe
3. aim at the creation of circumstances for economic activity and growth at the geographic margins of Europe, particularly in coastal areas
4. encourage the development and adoption of best practice including a hierarchy of offerings to communities commencing with those geographically adjacent to developments and then others – including disadvantaged urban areas with limited or no ownership of renewable generating assets
5. encourage collaboration throughout Europe

Questions: any other secondary objectives? Are some of those superfluous? In need for more clarity?

Scope

1. Finance demonstration/pilot farm/pre-commercial phase projects (First-of-a-kind-projects ?), not innovation or early prototypes
2. Geographic scope: focus on European projects or not?
   - *Proposal: For maximum flexibility a similar model to REIF's could be used, calling for "projects bearing a realistic possibility to have a positive impact on the EU economy. This could be e.g.: job creation, implementation of company Headquarters or manufacturing capacity, Project developed in EU waters, etc…"*
3. Project level: include enhancements/modifications/extensions of existing projects?
   - *Proposal: include all projects abiding by requirements to maximise flexibility and potential sector deployment (beyond Meygen 1A and Raz Blanchard first phases, which already benefit from sufficient public funding)*
4. *Which size should the fund have?*
   - *Proposal: the fund aims at bringing the sector to the next level of deployment, and one step closer to commercial roll-out. As such, it should enable financial close on enough MW capacity to get there. The OEF roadmap defines MW of installed capacity to be checked for consistency with the OEF Roadmap technical recommendations.*
   - *Alternative proposal: focus on the first X demonstration projects for each technology at demonstration level, for a potential envelope of €300m*
5. How many projects should be financed?
   - *Proposal: the total envelope should be the limiting factor, not the number of projects;*

Questions: are the proposals for each of the above points sensible? Do they raise some questions or concerns? Do you have alternative proposals?

Principle of the fund - to detail a funding approach that:

1. offers a real prospect of deploying capital of the right type into the right projects at the right time – freedom in how and when capital is allocated.
2. offers co-funders access to a series of projects across Europe – including supply chain businesses with appetites to invest to secure the sector and, thus, a developing and growing market for their own businesses
3. drives to enhance European supply chain by (positively) influencing projects deals
4. builds upon the successes to date and the experience in funding projects and device development that has emerged and continues to grow and the positive and growing appetite amongst a number of investors and potential co investors to the sector
5. recognises and builds upon the emerging changes in funding approach from EIB represented by the InnovFin – (which itself is to some extent due to the MeyGen example) – and in particular the key role the Commission's underwriting of 95% of the first loss piece plays in enabling the EIB to take an approach to risk which facilitates real intervention in the market place
6. encourages collaboration through funding mechanisms.
7. Enables fund-managers to help projects reach financial close by
   - identifying and forging links with other sources of investment to include a role in linking with the supply chain and the financial markets.
   - identifying the various sources of funds available in jurisdictions and to understand and influence their use. To link up with those agencies with funds to provide – as a source of possible projects and as a source of co finance.
   - seeking to influence policy around the sector.
8. is based upon a well-developed, proactive and targeted marketing plan making good use of social media and existing industry forums, conferences and contacts

Questions: Are these principles sensible? Are some of those superfluous or additional ones needed? Are some in need of more clarity?

Structure and decision-process:

1. Fund to be overseen by a **decision-making Board** meeting regularly
   - *Composition* of the Board?
2. Fund to have **Strategic Standing Groups/Advisory Groups** made of key sector representatives to advise on projects selection or key issues with one project.
3. Fund to have a **Secretariat** – c. max 10 persons - with running costs estimated at €2m/a
4. Board, Secretariat and Standing Groups should where possible capture existing expertise and include the input of current industry representatives, funders and other sector specialists into the deployment of the funds.

5. Structured as a Public Private Partnership (PPP)?

6. Hosted within an existing EU Institution or not?
   - *Hosting the Fund in an EU Member State could spark suspicion of partialism…*
   - *Proposal: an EU Commission managed fund The Fund led by the Commission using the EIB as a contractor on diligence and other matters with hired in expertise*

7. Which decision-making process for project selection?
   - *Proposal: a simpler, yet similar process to NER300 could be designed, to enable a European input, Ocean Energy Industry consultation, Member State participation, EIB due diligence and project pre-selection etc…*
   - *Proposal: Decision should have target lead times to enable fast decision-making where required*

Questions: Which parts of the above structure seem mandatory or on the contrary, superfluous?

Questions: Is a PPP the right vessel for such a fund?

Questions: Which elements should a sensible decision process encompass? Which stakeholders should they include, in decision or consolatory capacity?

Criteria for project selection:

1. Level of advancement of consenting process
   - *Proposal: fully or about to be fully consented projects should be eligible*
2. Technology readiness/due diligence on the machines used; on machines that have undergone sufficient real-condition testing should be considered in eligible projects
   - *Proposal: similar due diligence conditions to those discussed in the insurance fund paper could be devised, given both target the same type of projects… These could include e.g. time spend in real-conditions, MWh generated, etc…*
3. "Distance to financial close": while eligible projects would ideally have secured a good proportion of total project capital requirements, it is difficult to put a figure on that proportion.
   - *Proposal: to remain flexible and give due consideration to promising yet currently under-financed projects, an similar approach to that of the EU European Fund for Structural Investments (EFSI) could be taken: "eligible projects are projects that can reach financial close, with the help of the EFSI"*
4. Split own/foreign equity, debt, grant. Flexibility should be the objective, as having secured some finance sources might have positive impacts on a project's ability to secure others. Projects supported by this fund should not be mainly relying on grant funding. This is also consistent with the level of technological and commercial development targeted by the fund.
   - *Proposal: eligible project should provide evidences a good mix of equity/debt and grant against which the proposed investment can be leveraged in to the project*

Questions: Are these criteria sensible? Are some of those superfluous or additional required? In need for more clarity?

Any other comments?