In depth: Where next for Cape Wind as loan guarantee is frozen?

The Department of Energy (DOE) has frozen the loan-guarantee application for Cape Wind, the first US offshore facility, raising questions about its project financing and planned start date in early 2013.

By Richard A Kessler, Forth Worth | Friday, May 20, 2011 | http://www.rechargenews.com

Just when it looked as if Cape Wind had entered an era of smoother sailing after a decade of struggle, the department told parent company Energy Management that it could not fully process the loan-guarantee application by the 30 September deadline, when Section 1705 of the federal Loan Guarantee Program (LGP) expires.

The DOE says it will give preference to projects further along the queue for what money remains in the scheme.

It says the move is not being made because of the project's quality, but because of its readiness to proceed.

Neither the DOE nor Energy Management will say what percentage of the development's cost the loan guarantee was intended to cover, but industry insiders believe the company was aiming as high as possible, probably close to the maximum of 80%.

Energy Management has never made public its cost estimate for the Massachusetts wind farm, but the state pegs it at $2.6bn.

The biggest federal loan guarantee so far is $1.6bn for BrightSource Energy's Ivanpah solar project in California.

Asked whether the decision took Energy Management by surprise, Cape Wind spokesman Mark Rodgers replies: "We were up against a deadline and were aware of that." He says the department was giving positive feedback, but the programme ran out of money.

The decision by Energy Secretary Steven Chu's department to put the application on hold appears politically strange.

Only last October, Interior Secretary Ken Salazar and Cape Wind chief executive Jim Gordon signed a 25-year lease for the project, with Salazar saying: "This is the beginning of a new era for our nation in offshore energy production."

With all the high-profile support the Obama administration has given the offshore wind industry, particularly Cape Wind, "it doesn't want to be seen as the executioner", argues Salo Zelermyer, whose law firm Bracewell & Giuliani covers environmental issues.

Rodgers notes that DOE loan guarantees for clean-energy projects did not exist when the project was first proposed, and maintains: “We’re quite confident Cape Wind is the most financeable offshore wind farm that North America will see in many years.”

Energy Management is looking for equity partners to help cover the cost. With Barclays Capital, the lead project financial adviser, it is sounding out the bond market, commercial banks, export credit agencies and insurance companies as potential lenders. Turbine vendor Siemens will probably also provide credit.

But Rodgers denies that Energy Management wants to sell out: “It is not interested in getting out entirely or reducing its lead role.”

He will not “comment at this time” on industry talk that Cape Wind has applied for a loan guarantee under Section 1703 of the LGP, which supports innovative clean-energy technologies that are unable to obtain conventional private financing because of high risks. Congress has allocated additional funding for this programme.

Up to 80 projects are vying for DOE loan guarantees. One analyst wonders whether the freeze reflects a lack of co-ordination between the White House, the DOE and the Department of the Interior. “The DOE decision amounts to a no-confidence vote in another agency. It is somewhat odd,” he says.

Analyst Robert McCulloch argues that the DOE decision is a serious setback for Cape Wind.

“I’m glad I’m not on their side of the table with Wall Street. They still have to finance this and it is not what you would call an easy sell.”

But it is not impossible either, according to bankers and other potential lenders, even though they caution that Energy Management must navigate tricky waters, as it does not have buyers for half of Cape Wind’s power.

There is also still the threat of an adverse ruling from litigation by opponents of the project.

“Signing up output under a long-term contract is a fairly central element of financing,” says Ed Feo, managing partner at USRG Renewable Finance. “Lenders don’t want merchant risk on a project of any type.”

Rodgers says that not having a full power deal did not influence the department’s decision, but agrees it may be an issue for private lenders. “We are working hard to get a resolution on it,” he says, and he expects that to happen within two months at most.

Article URL: http://www.rechargenews.com/energy/wind/article257078.ece