Target 2025 - Empowering Europe to deliver on its ocean energy ambitions

22 June 2021

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Renewable Risk Advisers

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OceanSET

New insurance fund to accelerate ocean energy's roll-out

18 February 2021. The design of a brand-new European insurance fund for the ocean energy sector is underway, to slash the costs of the first commercial projects and accelerate the roll-out of this exciting new industry. Ocean Energy Europe (OEE) has appointed risk and insurance consultancy, Renewable Risk Advisers (Renewable Risk), to carry out the work as part of the EU-funded OceanSET project.

A well-designed insurance fund will mitigate the early risks of innovative ocean energy projects, for which investors typically demand returns of 10-12%. Access to project finance is a significant obstacle for wave and tidal developers, looking to leverage equity and crack a €53bn per annum global market.

De-risking projects through an insurance fund can act as a 'golden ticket' for the scale-up of ocean energy. By enabling more projects to reach financial close, this will generate the operational data and experience necessary to meet the needs of insurers, lenders, and equity investors.

Report Launch: 22 June 2021

- Focus on wave and tidal stream (but concept could apply elsewhere)
- How to fund first revenue-dependent deployments at scale?
- Not prototype testing: some prior data required for 3rd Party verification

- Sector capability review and gap analysis:

in association with b2bsure

  - *29 technology and project developers interviewed*
    - *11 wave*
    - *18 tidal (100% uptake)*
  - *13 expert organisations for due diligence input*
    - *MWS/Test Centres/Certification (100% capability statements)*
  - *13 specialist insurers + 1 broker (French waters)*
  - *12 lenders / equity investors / finance arrangers*
  - *Initial interaction with EU / EIB*

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Gaps common to most projects

A number of developers raised specific issues / concerns, or on cost of some types of insurance, but our focus has been on largely shared “gap” issues:

- Decommissioning Bonds - unless with recourse to creditworthy shareholder;
- Business Interruption Insurance (unless v large deductible);
- Insurance cover for Material damage or Business Interruption following defect or machinery breakdown; and
- “Reinsurance” to credit enhance / upgrade supplier warranties to required levels.

Note that defect and breakdown constitute risks significantly shared with warranties.

Proposed support mechanisms

Risk Mitigation Measure	Recommendations for mitigation
Decommissioning Bonds	Bond-instruments to be issued for the project duration/ Pool of projects to pay premium upfront and building up escrow / sinking funds to reduce risk over e.g., 10 years.
Repair (inc. Marine ops) costs following technical defect / breakdown	"Warranties" issued alongside device supply agreement with project as payee, 3 to 5 years with aggregate limits (and e.g., max 40% of limit any one year?) Possible liquidity funding. Risk panel to assess / advise / report on marine ops risk.
Revenue Shortfall following technical defect / breakdown	"Warranties" as above would facilitate (re)insurer engagement (sub. due diligence). Additional insurance policy to pay e.g., if annual revenue falls below 70% to 80% of projected levels due to technical defect / breakdown.
Business Interruption following other "fortuitous" perils – accidental damage, storm etc.	Additional insurance policy to buy-down time deductible to level acceptable to investors. Risk Panel to review supply chain / spares strategies to report to /engage insurers. Insurers could support emergency response programme – speed and cost. .

Public support requirement

Risk Mitigation Measure	Public Support
Decommissioning Bonds	Requires over-arching guarantee from rated public entity which also holds premiums and escrow accounts.
Repair (inc. Marine ops) costs following technical defect / breakdown	Additional guarantee(s) into industry Protected Cell Captive to pay in the event of exhaustion of funds in any one cell.
Revenue Shortfall following technical defect / breakdown	Additional Guarantee included within Industry Captive structure above but potentially reinsured out to commercial insurer subject due diligence and acceptable reinsurance premium.
Business Interruption following other "fortuitous" perils – accidental damage, storm etc.	Additional insurance policy included within Industry Captive structure detailed above.

Risk Sharing

Risk Mitigation Measure	Risk Sharing
Decommissioning Bonds	Projects pay "premiums" into pool + annual amounts to escrow. Public guarantor underwrites risk of insufficiency in pool should bond be called. *Potential early transfer to insurers / banks.*
Repair (inc. Marine ops) costs following technical defect / breakdown	Each project pays significant amount into own Protected Cell – not exposed to other projects, any balance repayable at end of warranty. Public guarantee pays if any one cell is exhausted. *Potential early transfer to insurers?*
Revenue Shortfall following technical defect / breakdown	As above, except where reinsurance is available at acceptable terms, which would reduce exposure both to Protected Cells and to public support. *Potential early transfer to insurers?*
Business Interruption following other "fortuitous" perils – accidental damage, storm etc.	Project retains first "excess" period, e.g., 60 days. Captive takes a buffer layer, e.g., 120 days excess of 60 days. Commercial insurers insure excess, e.g., if the delay exceeds 180 days.

Thank You!

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