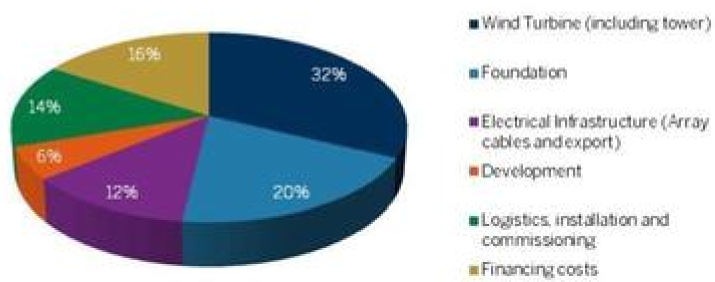
Financial Innovation Set to Cut the Cost of Offshore Wind

May 8, 2014

FTI Consulting Releases First FTI Intelligence Report

LONDON, May 8, 2014 /PRNewswire/ -- FTI Consulting, Inc. (NYSE: FCN), the global business advisory firm dedicated to helping organisations protect and enhance their enterprise value, today announced the release of an FTI Intelligence report, the first of a series of data-driven publications evaluating competitive markets, policy, finance, technology and business models across the energy spectrum.

Breakdown of capital expenditure on offshore wind farm construction



Financial costs revealed: Expressing the financial fees and interest paid on loans as part of capital expenditure for construction of an offshore wind farm is unorthodox, but these are costs incurred at the time. Demonstrating their relative size reveals the considerable potential for lowering the cost of wind energy that lies in squeezing the margins of the financial players. Financial costs over the entire lifecycle of an offshore wind farm, not just for construction, amount to 28% of total expenditure.

The report, *Innovative Financing of Offshore Wind,* focuses on renewable energy and explores the significant potential for cutting the cost of energy from offshore wind power by reducing financial fees and interest charges, which represent an astonishing 28 percent of project life cycle expenditures. The report is authored by members of the FTI-CL Energy practice, a cross-practice team of energy experts from both FTI Consulting and its subsidiary, Compass Lexecon*.*

A cost-of-equity sensitivity analysis by FTI-CL Energy professionals demonstrates how small changes in financing variables have a major impact on offshore wind energy costs to the consumer. The levelised cost of energy ("LCOE") is extremely sensitive to changes in debt margin. This analysis found that an increase of 100 basis points results in an average 3.4 percent increase in LCOE.

"Offshore wind energy economics are strongly governed by life cycle financial costs, and the potential to reduce these is considerable," explained Aris Karcanias, Managing Director at FTI Consulting and Leader of the Company's FTI-CL Energy practice in Europe, the Middle East and Africa. "Although financial costs normally are not expressed in terms of their share of overall capital expenditures, identification of the size of the opportunity to reduce capital expenditures shows the importance of financial innovation in providing cheaper electricity from offshore wind."

The report also found that the entry of new investors and lenders to the renewable energy sector with innovative ideas for structuring both equity and debt is applying beneficial pressure to financial margins. "Respectable returns without exposure to risk" was a strong message from European wind industry and financial sector chief executive officers interviewed for this report.

"Corporate and institutional investors looking for low risk, long-term and predictable yield investments are signing on pension, insurance and sovereign wealth funds, to name a few," said Athanasia Arapogianni, Consultant and member of the Company's FTI-CL Energy practice. "Innovative financing and an increase in the number of players in offshore wind finance are creating more competition among lenders, which will lead to lower charges, fees and risk premiums on interest rates."

The report further discovers that offshore wind now rates as an infrastructure asset favourably comparable with airports and highways, qualifying it as a safe harbour for investment and unlocking money markets previously closed to the sector.

"New classes of investors and lenders now are competing for involvement in offshore wind farms during construction and even pre-construction — once considered risky compared with investments in an operational facility," said Mr. Karcanias. "The latest innovation under discussion is bond finance. Investors are well-acquainted with bonds as a financing instrument and are using them to transform offshore wind projects into easy-to-comprehend investment opportunities, which, in turn, will assist in attracting capital to the sector."

In addition to the influx of capital for offshore wind investments, utilities and other equity investors are exercising exit divestment strategies and are selling their interests in completed projects to release capital back into more offshore wind construction.

"Replacement of equity with debt is creating a secondary market in refinancing offshore wind projects," continued Mr. Karcanias. "A clear pattern is emerging of how offshore wind construction will be financed in the future. Capital recycling and the lower capital expenditure levels achieved through learning curve experience are benefits expected to contribute to decreasing annual capital requirements for construction."

The report includes an analysis of this trend and reveals that 46 percent of the required investment by 2020 will be met by recycled capital. Global capacity today is about seven Gigga Watts ("GW") and the report projects capacity reaching 52GW in 2020, driven by notable growth in northern Europe, and 112GW by 2025, as markets in Asia and America continue to grow.

To purchase the FTI Intelligence *Innovative Financing of Offshore Wind* report in its entirety, visit the FTI Intelligence website at www.fti-intelligence.com or contact Aris Karcanias at aris.karcanias@fticonsulting.com.

About FTI Intelligence
FTI Intelligence is a comprehensive online resource for energy markets news and research. In addition to the energy markets newsletters, FTI Intelligence hosts industry-related news and events, as well as comprehensively researched publications. These data-driven publications, available for purchase on the FTI Intelligence Webstore, will offer in-depth analysis and strategic insight on competitive markets, policy, finance, technology and business models across the energy spectrum for both established and emerging markets.

About this Report
FTI Intelligence's aim with this report, *Innovative Financing of Offshore Wind*, was fourfold: 1) to demonstrate the financial sector's confidence in offshore wind power as an attractive infrastructure asset with an excellent risk-return profile; 2) to examine in depth the sensitivity of offshore wind power's cost to small changes in financial risk premiums and ways governments, by their actions, bear much of the responsibility for making offshore wind electricity affordable; 3) to explore and chart the depths of the pools of money available for offshore wind construction and identify innovative financial approaches and additional sources of equity and debt; and 4) to demystify offshore wind financing for potential new investors. The primary source of equity for offshore wind has come from the electric utilities, but they are faced with constraints on their balance sheet, and banks are tightening lending terms due to evolving regulations, particularly those being imposed under Basel III. But as this report clearly shows, new sources of capital are ready to be deployed, and innovative funding solutions already are releasing this flow of money. Based on our deep understanding of both the offshore wind sector and the financial community, this report moves from exploring the industrial scale and costs associated with offshore wind to the capital requirements for its further deployment and originations from where these funds will flow. The report concludes with an extensive assessment of those investors poised to enter the sector and ways they can infuse their equity and debt into this emerging and rapidly growing infrastructure asset.

Editing of the FTI-CL Energy report, *Innovative Financing of Offshore Wind*, closed in London, UK, on 8 April 2014. The report authors are Aris Karcanias and Athanasia Arapogianni from FTI-CL's Energy advisory team.

Illustrations and Further Information
Two graphic illustrations are attached and may be used with full accreditation to FTI Consulting, *Innovative Financing of Offshore Wind*, April 2014. Copies of the Table of Contents, Executive Summary and a list of bullet points noting the report's chief findings are available upon request to accredited journalists, at our discretion.

About FTI Consulting
FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. With more than 4,200 employees located in 26 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management, strategic communications and restructuring. The Company generated $1.65 billion in revenues during fiscal year 2013. More information can be found at www.fticonsulting.com.

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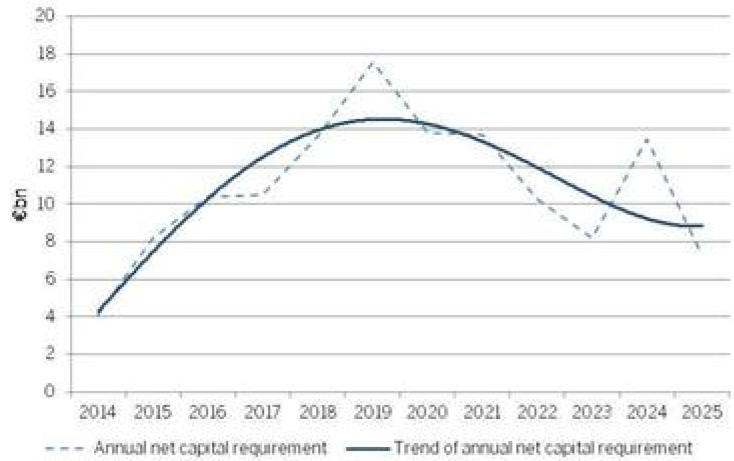
Annual requirement for new capital for offshore wind construction to 2020 and 2025 taking recycled equity and debt into consideration



Recycling construction capital: FTI Consulting's analysis reveals that each year around 75% of the invested equity in construction of offshore wind power stations two years previously will be released through refinancing, to be recycled into building more offshore wind capacity, making future construction less dependent on securing new capital from the generic pool of world money resources. As the graph indicates, the effect of recycling capital is to constrain the need for new flows of money in future despite the increase in growth rates of offshore wind construction after 2020.

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