



Investing In Taiwan Offshore Wind

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The Taiwan government has pledged to end Taiwan's reliance on nuclear power by 2025. As part of a transition to greater use of renewable energy, the Ministry of Economic Affairs (the "MOEA") is promoting investment in the generation of offshore wind power, primarily in the Taiwan Strait, with targets of 520 MW by 2020 and 3 GW by 2025.

Following the announcement of three demonstration projects in 2013, the MOEA's Bureau of Energy (the "BOE") issued the Offshore Wind Farm Site Application Regulations (the "Site Application Regulations") in July, 2015. Under the Site Application Regulations, interested companies may apply to the BOE for specific wind farm sites now through December 31, 2017.

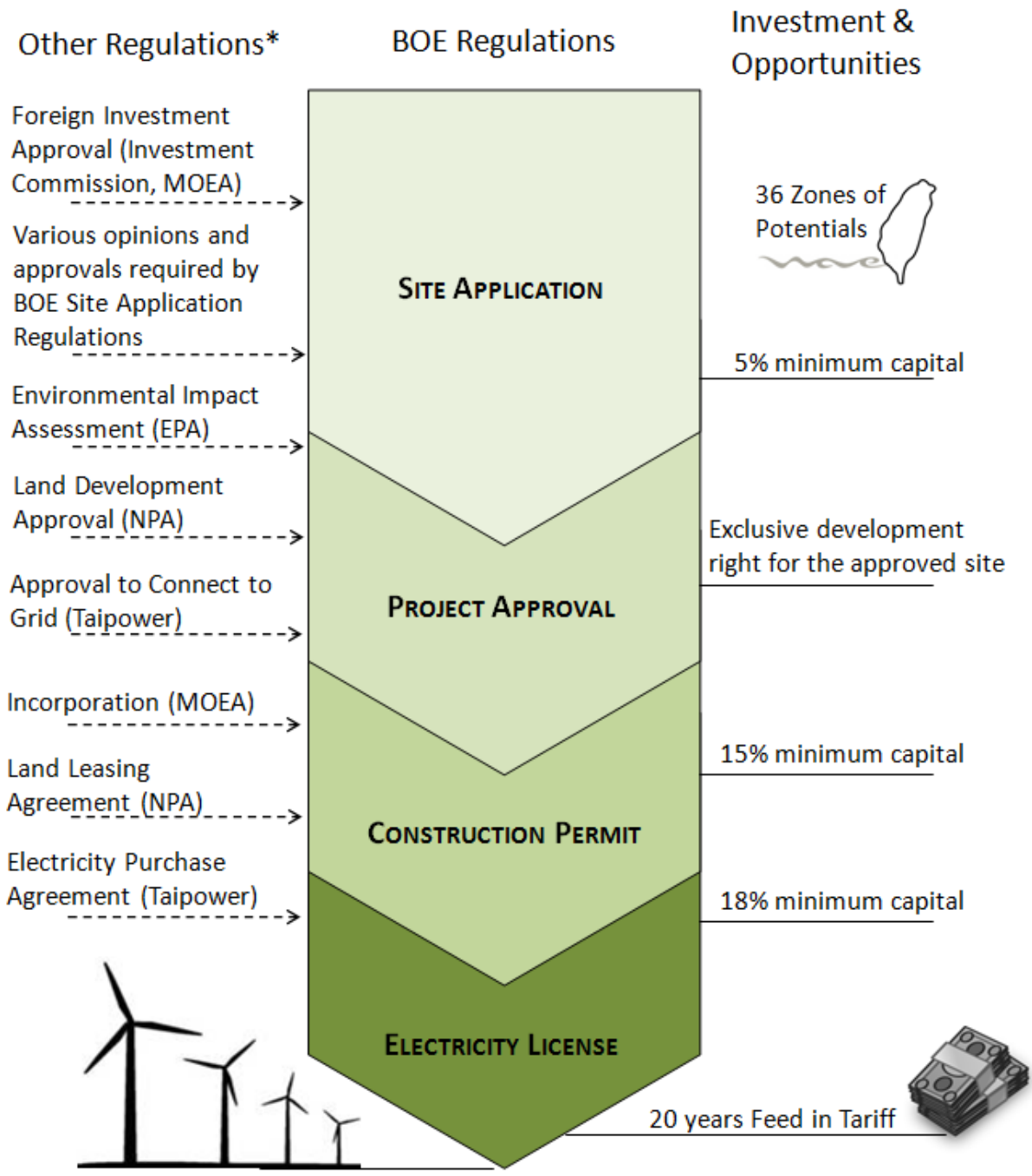
The Opportunity

The Taiwan Strait offers a potential world-class source of offshore wind power, with wind power density exceeding 1.4 kilowatts per square meter along much of Taiwan's central west coast, peaking at more than 1.5 kilowatts per square meter near Miaoli



and Taichung. The Site Application Regulations contain maps and other data on 36 designated Zones of Potential ("ZoP") which the BOE has identified as potential wind farm sites. Under Taiwan's Renewable Energy Development Act, the BOE has announced a guaranteed fixed feed-in tariff for the purchase of offshore wind power, at the developer's option, of either (a) NT\$5.7405 (about US\$.18) per kilowatt hour for 20 years or (b) NT\$7.1085 (about US\$.22) per kilowatt hour for the first 10 years and NT\$3.4586 (about US\$.11) per kilowatt hour for the next 10 years.

Offshore Wind Regulation Flowchart



* not an exhaustive list

Adapted and translated from flowcharts provided by BOE and Taipower

Overview of Site Application Regulations

The Site Application Regulations outline several eligibility and other requirements for potential applicants:

Type of entity:

An applicant may be either an electricity enterprise already licensed under Taiwan's Electricity Act or a "preparatory office," that is, a company in formation, of a Taiwan company limited by shares. An applicant may be wholly or partially owned by foreign investors, but a foreign company may not itself apply.

Site Selection:

An applicant may apply for one or more of the 36 designated ZoP, and/or for area(s) of its own choosing outside the 36 ZoP. If an applicant selects area(s) outside the ZoP, it must explain its reasons for doing so. The Site Application Regulations don't explain the standards the BOE will follow in reviewing an applicant's reasons for selecting its own area(s), but it appears the BOE prefers that applicants select areas coterminous with individual ZoP.

Project Parameters:

Each proposed project must have a minimum generating capacity of 100 megawatts and a minimum capacity of 5 megawatts per square kilometer of the area applied for. In addition, the distance between the center of each wind turbine and the border of any adjoining ZoP should not be less than six times the diameter of the wind turbine's blades.

Minimum Capital:

An applicant must prove that it has a certain minimum amount of capital available for its proposed project. This minimum depends on the generating capacity of its project and the year in which the applicant files its application. An applicant filing in 2016 is required to have at least 5% of NT\$180,100 (about US\$5,700) per kilowatt, or NT\$900.5 million (about US\$28.3 million) for a 100-megawatt project. An applicant filing in 2017 is required to have a little less, 5% of NT\$179,200 (about US\$5,650) per kilowatt, or NT\$896 million (about US\$28.2 million) for a 100-megawatt project. When an applicant later applies for a construction permit, as discussed below, the BOE requires that the applicant increase this 5% to 15%, and eventually to 18% when it applies for an electricity license.

Multiple Applicants:

If two or more applicants apply for the same ZoP, the BOE will approve the applicant who receives approval of its environmental impact assessment ("EIA", explained below) first. If the applicants receive approval of their EIAs the same day, the BOE will approve the applicant who filed its application under the Site Application Regulations first.

Sources of Uncertainty

Certain details of the site application process remain unclear, including:

Opinion Letters:

Among other documents, the Site Application Regulations require that an application be accompanied by:

"opinions of regulatory bodies and/or related associations on nearby flight routes, radar, military, building restrictions, boating safety, marine and nature preservation and safety, fishery and mineral rights"

Unfortunately, the Site Application Regulations do not specify precisely whose opinions are required, or what those opinions should cover. BOE officials have explained informally that an applicant should obtain a written confirmation from each relevant government agency and trade association that it does not object to that applicant's project, but the Site Application Regulations do not specify the standards an agency or trade association should follow in reviewing requests for opinions. The BOE has recently published a separate list of the authorities whose opinions are required, but has included a disclaimer that this list is "for reference only."

Adjustment of ZoP:

Taiwan's Environmental Protection Agency (the "EPA") reviewed a strategic environmental assessment of the overall offshore wind power development program in July, 2016. Based on the results of this review, the BOE plans to consult with other government ministries and adjust or reduce the number of ZoP. The BOE has not announced when these consultations are likely to occur, or identified which ZoP may be affected.

The Big (Regulatory) Picture

A successful applicant under the Site Application Regulations will receive a

formal letter of acknowledgment from the BOE. Obtaining this letter is only one step in the application process to establish an offshore wind power business in Taiwan. Other major steps include:

EIA Approval:

An applicant must conduct an EIA and apply for approval from the EPA under Taiwan's Environmental Impact Assessment Act. To apply for EIA approval, an applicant must submit a letter from the BOE confirming that it has filed all the application documents required under the Site Application Regulations. Once the EIA approval has been issued, the applicant is eligible to receive its letter of acknowledgment from the BOE. In practice, most applicants will complete portions of their EIAs in parallel with their applications under the Site Application Regulations. The deadline for obtaining EIA approval is December 31, 2017.

Land Development Approval:

After an applicant has received its letter of acknowledgment under the Site Application Regulations, it must apply for a seazone land development approval from the National Property Administration (the "NPA") of Taiwan's Ministry of Finance and pay a deposit.

Project Approval:

After an applicant receives its seazone land development approval, it must apply to the MOEA for a project approval under Taiwan's Electricity Act and Electricity Enterprise Registration Rules. This application must be accompanied by consent letters from the local city or county

government, confirmation from Taiwan Power Company (“Taipower”) that the project will be able to connect to the grid, letters of intent from project financiers and other third party documents. Under the Site Application Regulations, the deadline for obtaining a project approval is December 31, 2019. The project approval will be valid for 2 years.

Application for Foreign Investment Approval and Incorporation:

After an applicant receives its project approval, its foreign investor(s) must apply to the Investment Commission for approval of their investments in the applicant. Depending on the source and term of financing, the applicant may need to apply for foreign investment approval of its financing, as well. After all required foreign investment approvals have been obtained, the applicant must be formally incorporated as a Taiwan company limited by shares.

Entry into Lease with NPA:

Within 3 months after the applicant receives its project approval, it must enter into a lease with the NPA and pay rent for the use of its project site(s).

Entry into Power Purchase Agreement:

After an applicant has been formally incorporated, it must negotiate and sign a power purchase agreement with Taipower.

Application for Construction Permit:

After an applicant has signed a power purchase agreement, it must apply to the MOEA for a construction permit before its project approval expires. After the applicant receives its construction permit, it may construct its wind farm facilities.

Registration of Facilities and Application for Electricity License:

After the applicant has completed construction of its wind farm facilities, it must register any building structures, its submarine electricity cable and certain other assets, and apply for inspection of its facilities and documentation. After it passes all inspections, the MOEA will issue its electricity license, and it may then begin to conduct business.

Conclusion

It will take several years to establish a Taiwan offshore wind power business. The regulatory process is new, not just to foreign developers but also to local joint venture partners, suppliers, financiers, regulators and others. Regulatory applications and approvals will unfold in parallel with complex contract negotiations, among shareholders of an applicant and between an applicant and its financiers, suppliers, Taipower and others. The rules may change, and unforeseen events are likely to occur. No one will have all the answers instantly, but the opportunity is real and Taiwan's hunger for more renewable energy should help propel projects forward.

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