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WIND FARM OPERATION AND MAINTENANCE COSTS PLUMMET

Average prices for operation and maintenance contracts in the wind sector have dropped 38% in the last four years, boosting the sector's competitiveness significantly

London and New York, 1 November 2012 – The wind energy sector is making significant improvements not just in the capital cost and performance of its turbines, but also in the ongoing cost of operating and maintaining them once installed. This is the message from the inaugural issue of the Bloomberg New Energy Finance Wind Operations and Maintenance Price Index, just published.

The index, based on contractual data submitted on a confidential basis by leading players in the wind energy sector worldwide, shows that the average price for full-service O&M offerings for onshore wind farms (including scheduled and unscheduled maintenance works and component replacement) fell to EUR 19,200 per MW annually in 2012, from EUR 30,900 per MW in 2008 – a cumulative decrease of 38%, or just over 11% per year.

Michael Liebreich, chief executive of Bloomberg New Energy Finance, commented: “Wind power has done much to improve its competitiveness against gas-fired and coal-fired generation in recent years, via lower-cost, more technically advanced turbines, and more sophisticated siting and management of wind farms. This new O&M Price Index shows that servicing wind farms at the operating stage is also becoming much more cost-efficient.”

The operational performance and efficiency of wind assets has become increasingly important for wind project owners and investors. Better planning of O&M works, more efficient spare-part management can reduce unplanned downtime, and hence improve output and generators' margins.

O&M services have become an increasingly important revenue stream for manufacturers as the installed base of turbines has grown, and particularly during the industry's current slowdown. Turbine manufacturers have been competing hard for service contracts, resulting in keener pricing. Typical O&M agreements considered in the report include scheduled and unscheduled maintenance works, as well as replacement costs for major components (such as blades, gearboxes and generators), and provide availability guarantees to the wind farm owner.

Bloomberg New Energy Finance has analysed confidential contract data from 38 major developers and service providers for the first issue of its O&M Price Index. The data have covered 104 confidential and undisclosed O&M contracts, totalling 5.3GW of contracted capacity, in more than 24 markets. In all cases the service providers are the turbine manufacturers, with a main focus in Europe and the Americas. The main conclusions of the analysis are:

- Average prices for full-service O&M contracts fell to EUR 19,200 per MW per year in 2012 – a 38% decrease since 2008. The decline in O&M prices was driven by increased competition, as turbine manufacturers vie for service contracts, as well as by improved service performance of the underlying turbines.
- Average contract duration has risen from 4.5 years in 2008 to 6.9 years in 2012, as manufacturers attempt to lock in longer-term agreements.
- Average availability guarantees in the contract sample reached 96.9%, with any upside beyond that generally shared between the developer and service provider. Guarantees on actual energy production are also becoming more commonplace.
- Markets in Eastern Europe and the UK had the highest pricing for full-service offerings. This may be due to higher labour costs and/or a limited local supply chain. The US displayed the most competitive pricing of all markets.
- Pricing between manufacturers has been fairly similar in 2008-12, with the exception of one manufacturer, German company Enercon. Its prices for full-service contracts were nearly 20% lower than the market average throughout the whole period.
- Index participants expect O&M pricing be fairly stable at least until 2015. They regard Enercon, Siemens and Vestas as the best service providers in the industry in terms of promptness and quality of service for scheduled and unscheduled works.

The O&M Index will be updated twice a year, and Bloomberg New Energy Finance is in discussion with additional companies planning to participate. If your company has bought or sold O&M service agreements in 2008-12, and you would like to participate in the survey please email Eduardo Tabbush (etabbush@bloomberg.net).

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