Tilting at windmills

By Editorial Staff *Wed, Jan 11, 2017*

A Danish pension fund's investment in American wind farms looked like a safe diversification bet--until the prevailing price of electricity in Texas dropped by more than 50%.

Many pension funds and other institutional investors have increased their investments in infrastructure over the last few years, seeing the long-term fixed cash flows from utility contracts as bond-like investments that have the potential to yield more than bonds themselves currently do.

But concerns about the security of the return guarantees, particularly where unpredictable regulatory bodies are involved, have fueled some caution about investing in this asset class. A Danish pension fund's co-venture with a German energy firm in Texas wind farms appears to be a case in point.

Papalote, a joint venture between Danish labor-market pension fund PensionDanmark and Germany's E.ON, has filed suit in the US seeking to recover about $300 million (€284m) in alleged losses stemming from a US water authority's decision to stop buying power from it.

IPE.com reported this week that in October 2012 PensionDanmark bought a half share in two Texas wind farms from E.ON. They were Papalote Creek I and Papalote Creek II, a 180-megawatt facility and 200-megawatt wind farm, respectively. The Danish pension fund also bought a 50% stake in a 53-megawatt farm in Stony Creek, Pa., from E.ON.

But when wholesale energy prices in Texas dropped to less than $25 per megawatt hour last year, the Lower Colorado River Authority (LCRA) decided last year to cancel the remainder of the 18-year agreement to buy power from Papalote for $64.75 per megawatt hour, according to a report in *Responsible Investor* (RI).

PensionDanmark and E.ON declined to comment.

According to the RI report, the LCRA said the cancellation was allowed under the contract and that the agreed-upon penalty for early termination was $60 million (or $60 million in liquidated damages over time). Papalote claims that it is owed more than $300 million in losses arising from the cancellation, arguing that the cancellation clause applied only in the construction phase of the project.