# Financier's Perspective On Project Finance For R3 Construction And O&M

Windpower monthly – Vessels and Access forum

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Green Giraffe
Energy Bankers

## Financing offshore wind

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**Topics and key messages:**

- "What is a financier looking for in a finance application for a Round 3 wind power project"
  - *The same as before….equity and debt markets have grown and will continue to do so*
  - *EMR has it benefits but it has introduced more upfront equity risk*
- "Concerns around the wind industry's approach to Round 3 technologies and conditions"
  - *Move to Round 3 does offer fresh challenges but nothing should be unsurmountable*

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## GGEB – the offshore wind finance specialists

**We have an unparalleled track record in successfully closing deals for our clients**

- 20 professionals in London (UK), Paris (FR), Utrecht (NL) and Hamburg (DE)
- Project & structured finance, full scope equity advisory and contracting expertise
- Focus on renewables and specifically offshore wind

**Advisor to C-Power to raise project finance debt**

**325 MW**

C-Power

**Belgium**
**2010**

EUROMONEY ProjectFinance 2010 Deals of the Year

INFRASTRUCTURE AWARDS 2010

pfi AWARDS 2010

**Advisor to Northwind to raise project finance debt**

**216 MW**

Northwind Offshore Energy

**Belgium**
**2012**

ProjectFinance Deals of the Year 2012

PFI AWARDS 2012

**Non-recourse financing of 25% stake in Walney offshore wind farm**

**367 MW**

Walney Offshore Windfarms

**UK**
**2012**

PFI AWARDS 2012

**(Sponsor)**

**Advisor to WindMW to raise project finance debt**

**288 MW**

WindMW

The Blackstone Group®

**Germany**
**2011**

ProjectFinance Deals of the Year 2011

PFI AWARDS 2011

**(Sponsor)**

**Financial advisory services French offshore wind tender**

**1,428 MW**

EDF energies nouvelles

DONG energy

**France**
**2012**

**Advisor to Highland in the acquisition of the Deutsche Bucht project**

**210 MW**

**Highland Group Holdings**

**Germany**
**2012**

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## 1. The equity market

| Investors and appetite for risk | | | | | | |
|---|---|---|---|---|---|---|
| Investor | Permitting | Development | Construction | Operations | Notes | PF? |
| **Utility** | Yes | Yes | Yes | Yes | A proven solution | Potentially |
| **IPP** | Yes | Yes | Yes | Yes | Not many active yet in offshore wind, but several have shown intention | Yes |
| **Private equity** | Some | Some | Some | Yes | Require high returns | Yes |
| **Municipal utility** | No | Maybe | Some | Yes | Decision process is slow and risk avoidance requirements can be stringent. Conversely, **required IRRs are low** | Probably |
| **Sovereign wealth funds** | No | Maybe | Some | Yes | Require simple contracting structure, long term O&M agreements and ***controlling*** partner. Masdar has taken on construction risk on LA | Not necessarily |
| **Infra funds** | No | No | Maybe | Yes | A large universe. Most still **require construction risk mitigation and long term O&M agreements** | Probably |
| **Corporations** | No | No | Maybe | Yes | - | Not necessarily |
| **Pension funds** | No | No | Maybe | Yes | **-** | Not necessarily |
| **Contractors** | No | Maybe | Yes | Yes | - | Not necessarily |
| **Community owners** | No | Maybe | Yes | Yes | - | Probably |

## 1. The equity market

### Valuations and risk

- **An active market – and a wider range of investors beyond utilities than people assume**
  - Infrastructure funds and pensions funds (PensionDanmark, PKA, Industries Pension, TCW, PGGM)
  - Private equity groups (Blackstone, etc.)
  - Corporations with specific strategies (LEGO, Colruyt, Marubeni)
  - …. and many more sniffing around the sector

- **Valuations are actually relatively consistent**
  - Permitted projects – development cost + premium @ 200kEUR/MW
  - Contracted projects – construction cost @ 3.5MEUR/MW unlevered (or 1.1 MEUR/MW levered)
  - Operational projects – linked to regulatory framework and IRR target of investors (8-10%)

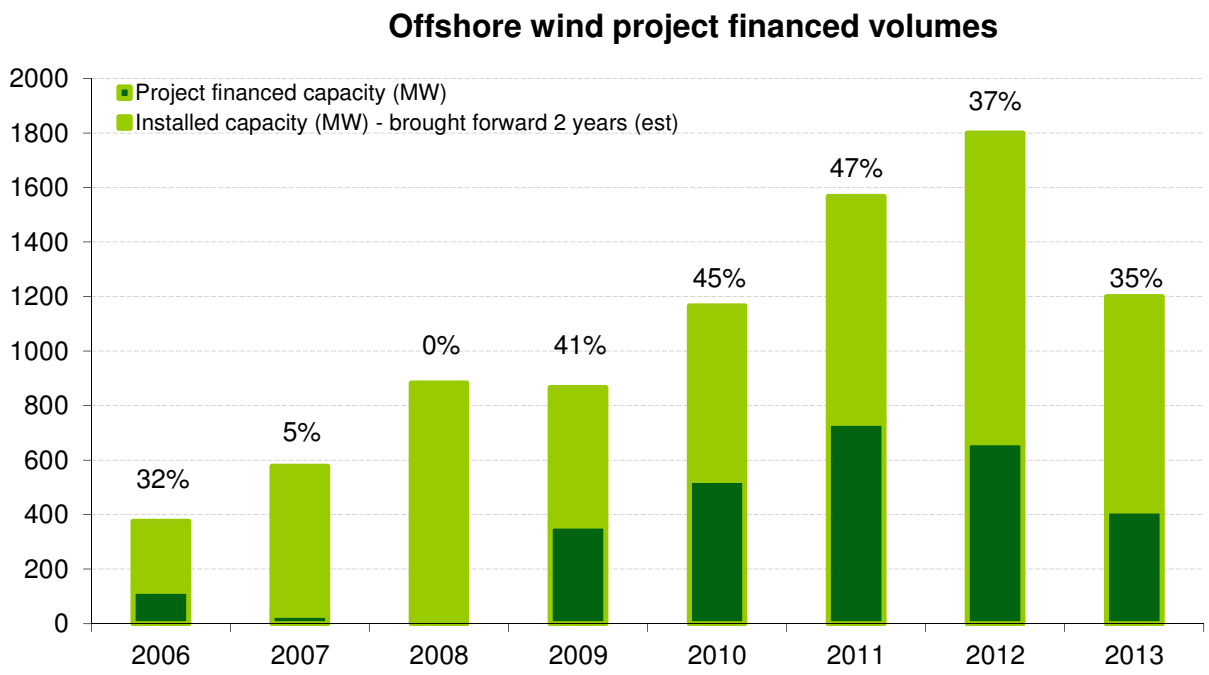
- **Trade off between construction risk and returns now closely examined**
  - As more assets are operational, the universe of investors grows and IRR targets are going down
  - A number of investors are now looking to take construction risk to improve returns (to double digits)
  - A “bankable” deal is also one which many investors can find attractive

## 2. The debt market: lessons learned from the early years

**The banking market is there if the transactions are well structured**

### Lessons learned from the first projects – now up and running

- The first projects using project finance closed in the "early years" (2006-2009) are now in operation
- Construction has never been easy (it is a full-time job for the banks as well) but mechanisms to limit the risk have proved to be successful and most projects using PF have been built on time and within budget (including contingencies)




### An active PF market becoming mature

- Most active market ever, despite the crisis and the atmosphere of gloom
- No bank or individual institution is indispensable
- Debt sizing principles are quite stable and predictable
- Due diligence standards and main covenants are similar across transactions
- The same rules apply in different countries and with different banks involved

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## 2. The debt market: some recent highlights

A number of large transactions have taken place

**Notable transactions:**

- **C-Power** – Belgium – 2010: billion-euro senior debt can be raised with construction risk for a project with new turbine
- **Meerwind** – Germany – 2011: private equity enters into the market and uses PF
- ***Lincs*** *– UK – 2012: there is no "UK maledictionˮ with construction risk and project finance*
- ***Walney*** *– UK – 2012: first commercial financing of a minority stake*

## 2. The debt market: some recent highlights

2 transactions in 2013 and more in the pipeline

- **Butendiek** (DE, 288 MW, Siemens 3.6 MW, EUR 940 M financing)
  - First transaction under the new grid law in Germany
  - Full construction risk, on a billion-euro scale, borne by both lenders and financial investors
- **London Array** (UK, 126 MW, Siemens 3.6 MW, GBP 266 M financing)
  - Refinancing of Masdar's 20% stake in the 630 MW project at completion
  - Very long process, as it was started in 2009

And pending…

- **Gemini** (NL, 600 MW, Siemens 4.0 MW, financing launched)
  - Transaction currently on the banking market
  - Would be the largest ever wind financing (PFI has reported an amount of EUR 2.26 billion)
  - Closing expected Q2 2014
- **MEG1** (DE, 400 MW, Areva M5000, financing launched)
  - Financing launched by equity consortium
  - Closing expected H2 2014

## 2. The debt market: current market – volumes available

### Commercial banks

**The bank market is broader and broader**

- More than 30 banks have taken offshore wind risk today
- More than 20 banks have construction exposure
- Experienced banks – an active pool of banks able to structure and lead transactions:
  - Rabobank, KfW-IPEX, Unicredit, BoTM, SocGen, BNPP, Santander, Commerzbank, (Dexia)
  - HSH, NordLB (German focus)
- Many banks were involved in recent deals in the last 2 years:
  - Lloyds, ING, KBC, Siemens Bank, Deutsche Bank, NIBC, ASN
  - Calyon, BayLB, NAB, Helaba, SEB, Deka, DnB Nor, Natixis, NIBC, Sabadell, Nordea, BBVA, LBBW, Mizuho, SMBC
  - RBS, HSBC (UK focus)
- More have expressed their appetite

**An average EUR 100 M available per bank per year**

- EUR 30-150 M exposure per bank per year, in 1-3 deals

**At least EUR 2.5 billion available per year**

## 2. The debt market: current market – volumes available

### Public Financial Institutions

**Several active public financial institutions**

- **EIB** – historic key player with cheaper funds (support to European offshore projects), but generally conservative
- **EKF** – offshore wind's "best kept secret": participation linked to Danish exports, up to EUR 250 M per transaction
- **Euler-Hermes** – participation linked to German exports, can do large tickets
- **KfW** – potentially large amounts available (in Germany): able to provide cheaper funding in significant volumes
- **GIB** – UK Green Investment Bank, first involved in Walney

**Their role has been instrumental to get deals done**

- Will typically bear approximately half of the risk and/or funding of a transaction
- Will normally take the same risks as the commercial banks, but they usually run their own internal assessment
- Some geographical / national restrictions
- Small deal teams, so availability is a constraint

**Can contribute as much as the commercial banks**

**Altogether, there are EUR 5 billion of debt funding available for 4-6 industrial size projects (400 MW) per year today**

## 3. Future challenges - focus on Round 3

Investor / lender perspective

| | Factor | What's important? |
|---|---|---|
| Market | Support scheme | Simplicity, certainty, stability, profitability |
| | Political and country risk | Good perception of the government, risk of default |
| | Existing offshore wind market | Experienced market |
| | Alternative investment options | Limited potential of shallow-water, onshore wind, solar |
| Project | **Technical risk** | **Technology, construction schedule, interface, access** |
| | Project economics | Meet investor's/lenders' requirements |
| | Project commercial risks | Good project structure, careful selection of contractors |

Largely responsibility of governments -> out of project's control

Heavily influenced by project

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## 3. Future challenges - focus on Round 3

Investor / lender perspective

| | Factor | What's important? | UK Round 3 |
|---|---|---|---|
| Market | Support scheme | Simplicity, certainty, stability, profitability | Certainty? |
| | Political and country risk | Good perception of the government, risk of default | |
| | Existing offshore wind market | Experienced market | |
| | Alternative investment options | Limited potential of shallow-water, onshore wind, solar | |
| Project | **Technical risk** | **Technology, construction schedule, interface, access** | **Is this really new?** |
| | Project economics | Meet investor's/lenders' requirements | |
| | Project commercial risks | Good project structure, careful selection of contractors | Project scale |

These points warrant further discussion

Not really a risk as projects are being broken down into manageable 'chunks' (~4-500MW)

## 3. Future challenges - focus on Round 3

Main features of the new support scheme, moving from market-based incentives towards fixed price support

### Contract for difference

- Electricity sold to the market, often through a PPA
- Difference between the pre-defined strike price and an estimate of the market price (the "reference price") paid to generator
- 15 years, fully inflated to CPI
- State-owned counterparty, only able to pay to generators what it has collected from suppliers

### Levy control framework ("LCF")

- Cap the total amount of yearly support for renewables
- Useful for the acceptability of renewables by consumers
- LCF budget divided between "established" technologies (e.g. onshore wind, solar) and "less-established" ones (e.g. offshore wind, wave)

### Lack of certainty on allocation process:

- Not on a first-come-first-served basis as initially planned, immediate switch to Allocation Rounds ("ARs"). Will ARs be competitive or not among the "less-established" group of technologies? A clear answer is still awaited–Government response to the competitive allocation consultation supposed to be published in the coming days–
- Other pending issues:
  - LCF split between technology pots
  - Frequency and timing of ARs

| Year | Strike prices GBP/MWh 2012 prices | |
|---|---|---|
| | Onshore | Offshore |
| 2014-15 | 95 | 155 |
| 2015-16 | 95 | 155 |
| 2016-17 | 95 | 150 |
| 2017-18 | 90 | 140 |
| 2018-19 | 90 | 140 |

| Year | Annual caps of the LCF GBP bn 2011-12 prices |
|---|---|
| 2015-16 | 4.30 |
| 2016-17 | 4.90 |
| 2017-18 | 5.60 |
| 2018-19 | 6.45 |
| 2019-20 | 7.00 |
| 2020-21 | 7.60 |



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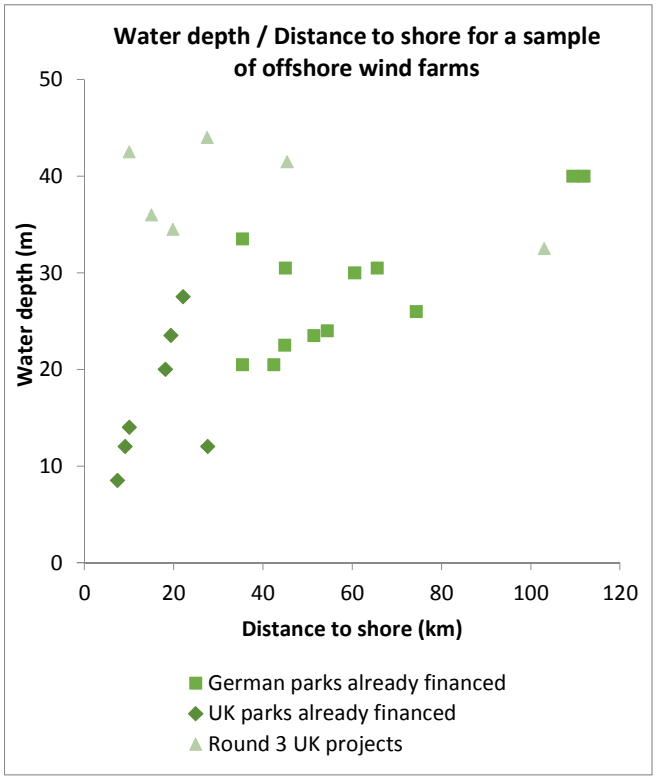
## 3. Future challenges - focus on Round 3

### Technology risk

- New technology risks have been taken by lenders before and they will continue to be
- However most potential changes as a result of R3 are not new to lenders, just to the UK

| Category | New risk? | Comments |
|---|---|---|
| Increased water depth | Not really | • German market precedent |
| Further from shore | Not really | • German market precedent |
| Greater Hs / other access restrictions | Not really | • Offshore accommodation vessels / platforms can mitigate distance<br>• Helicopters are building up a track record<br>• CTV access methods are developing |
| Bigger WTGs | Not really | • A lot of new WTGs have been banked |
| Grid connection | Not really | • Although a shift to HVDC might make things more challenging |
| Foundation | Perhaps | • Lenders may be more sensitive here<br>• Floating technology? |




- Nonetheless lenders will only have appetite for so much risk in any one project so developers / suppliers need to proceed with caution

## 4. Conclusion

- Equity and debt markets are growing and will continue to grow

- Move to Round 3 does offer fresh challenges but non of them should be unsurmountable:
  - German deals provide precedence for more onerous site conditions
  - New technology has been banked in the past
  - These challenges will be more surmountable if project size is kept to a “reasonable” level

- We don’t expect financing to be a blocking point to the development of the supply chain

- EMR has it benefits  but one potential future impact is the lack of allocation certainty under the new Levy Control Framework – but this is necessary if we are to learn lessons from others….

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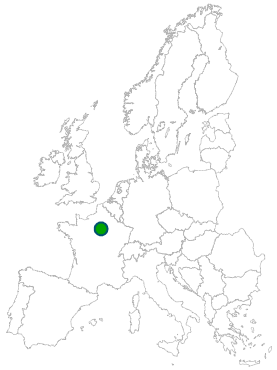
### Paris



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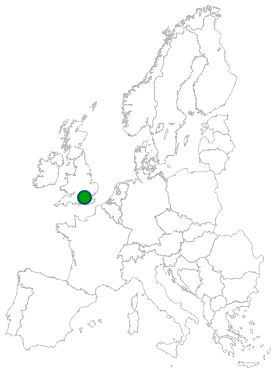

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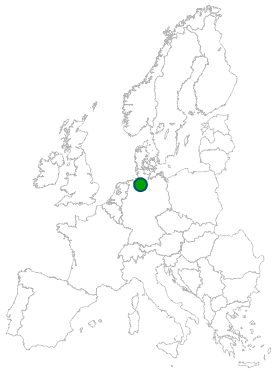

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