Financing offshore wind – the Gemini project

Global Offshore Wind 2014 – Glasgow, UK

12 June 2014

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Green Giraffe
Energy Bankers

GGEB – the offshore wind finance specialists

A strong focus on offshore wind

GGEB – the offshore wind finance specialists

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

- 20 professionals in Hamburg (DE), London (UK), Utrecht (NL) and Paris (FR)
- Project & structured finance, M&A & contracting expertise
- Focus on 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. A little bit of context

At the heart of the North Sea

2 zones allocated

- 85 km from Groningen coast
- Right by the German border
- Water depth between 29-36 meters
- Capacity: 600 MW
- Favorable wind conditions

No unusual technical choices

- Siemens 4 MW turbine selected early
- Monopile foundations
- Grid connection (AC) within project scope
- Redundancy: 2 interconnected OHVSs and 2 export cables
- Multiple vessels available in the period

Some challenges

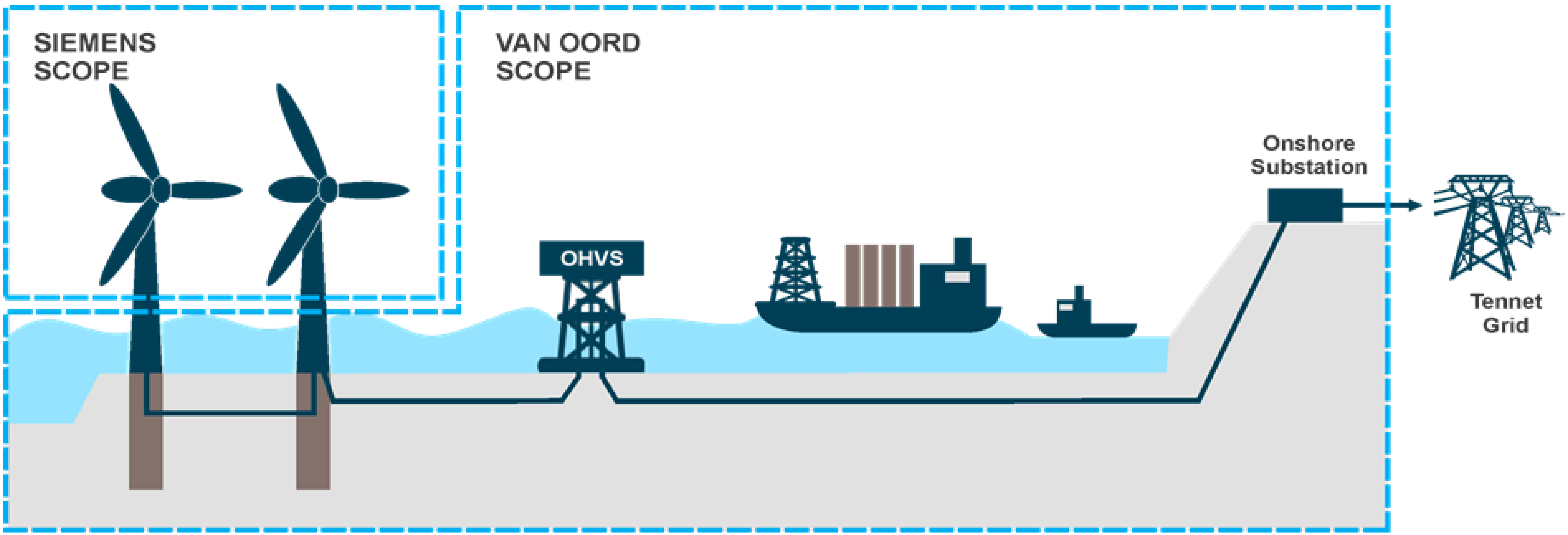
- Very long (100 km) export cable
- Some piling restrictions
- … and the sheer scale of the effort

1. A little bit of context

Two contracts

A straightforward contractual structure with two experienced parties

- Siemens supplies 150 turbines – the 4MW-130, an evolution of the highly successful 3.6 MW
- Van Oord is responsible for everything else, including installation of the turbines
- The grid connection (2 interconnected OHVSs and 2 export cables) is part of the scope of the project and is also under Van Oord's scope

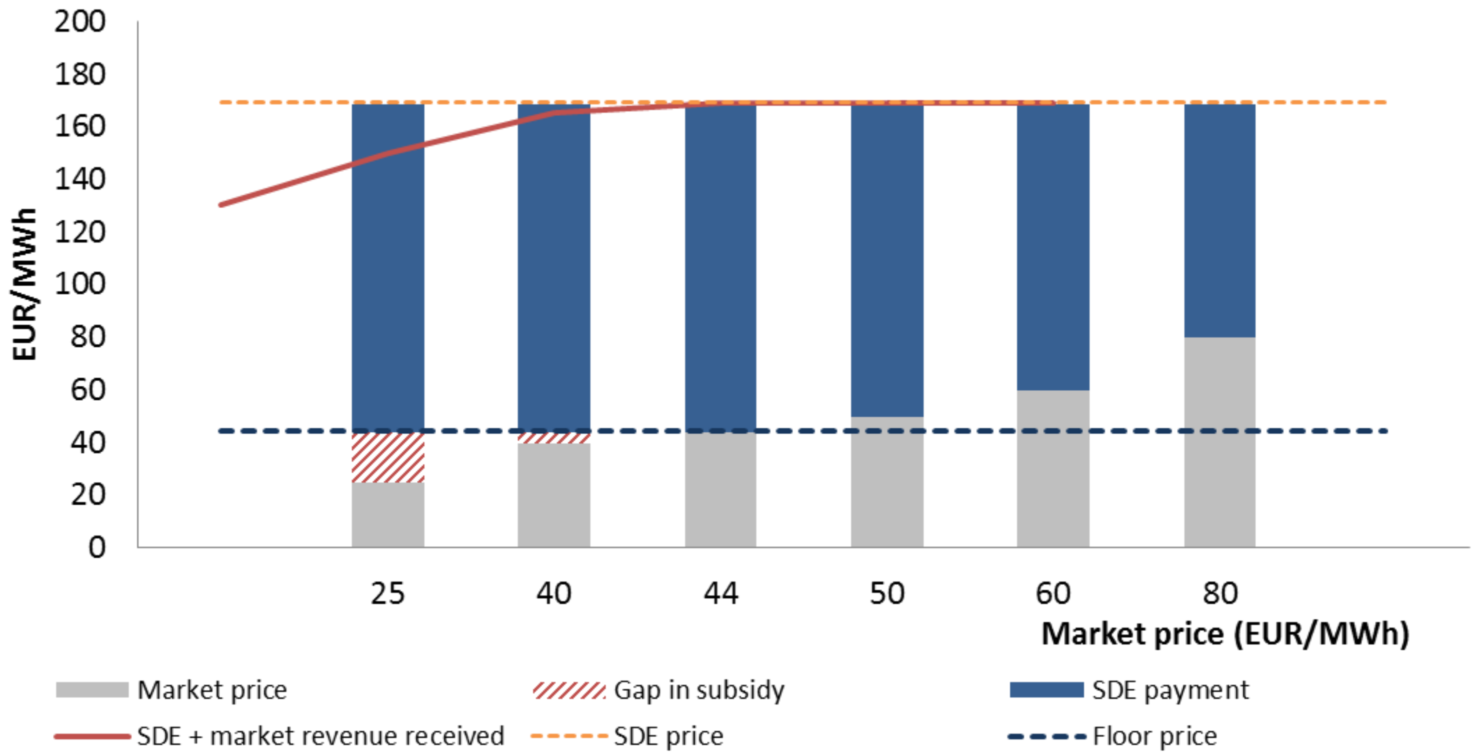


1. A little bit of context

Revenues come under the SDE, a « contract for differences » mechanism

The project earns a net price of 168.9 EUR/MWh, with some residual merchant risk

- The SDE is economically structured as a contract for difference, which “tops up” the brown electricity price to the tender amount
- The SDE assumes a floor in the grey electricity price and is capped to a maximum amount of full load hours (FLH) per annum
- The SDE is not indexed and is paid by the Dutch State over a 15 year period



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2. The challenge

What Gemini looked like 3 years ago…

- **600 MW is BIG**
  - This will be the largest project (by production if not by MW) when completed
  - The amounts to be raised dwarf anything done before – both on the equity and the debt side
  - Without any underwriting (or large tickets), the deal could have potentially required 25-30 banks!

- **No big balance sheet player behind the project**
  - A small developer behind the project
  - No big names to convince investors, lenders (who are increasingly relationship-driven) and contractors

- **A difficult market context**
  - Offshore wind transactions remain relatively rare
  - 2011/2012 were marked by severe tensions on bank funding and their willingness to do long term debt
  - 2012/2013 saw the German offshore wind projects financed earlier by banks struggle with construction issues and grid delays
  - The public debate about offshore wind has become increasingly toxic

2. The challenge

Some solid bases

- **A project with a favorable regulatory framework**
  - An explicit price regime, backed and funded by law, earned in a public auction
  - A favorable (if complex) price regime with limited revenue volatility in a broad range of wind regimes
  - Good cooperation with regulatory bodies

- **A strong development team**
  - Highly experienced technical and commercial team with a number of people who have done it before (Q7, Belwind, others)
  - Early involvement of HVC and then Van Oord & Siemens provided local support and technical & regulatory expertise

- **A clear strategy**
  - Project to be developed with non recourse debt from the very beginning – GGEB was hired in early 2011
  - Fully coordinated approach to debt and equity
  - Selection of contractors included, from the start, a requirement to support the financing and cope with PF discipline/transparency
  - Realistic expectations as to what could be done (the financial model built in 2011 was used all the way to financial close)

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3. The equity

Current investment strategies

- **The pure developer**
  - Developers focus on the initial permitting phase and sell the project before FID/FC
  - In offshore wind this already involves substantial costs (geotechnical studies)

  Examples: Ormonde (Eclipse), Gode Wind (PNE Wind)

- **The utility model – from development to operations**
  - Utilities are involved throughout the value chain, from development to operations and keep full control
  - They can take the permitting risk but will often acquire projects once they are permitted
  - Up to now, they have mostly kept these projects on balance sheets, but may sell minority stakes
  - For the larger projects, utilities typically partner together

  Examples: NordSeeOst (RWE), Greater Gabbard (SSE/RWE), Dudgeon (Statoil/Statkraft),

With PF

- **The IPP model – with project finance**
  - A few non-utilities, including financial investors, are willing to take on development risk and construction risk
  - Such projects are almost always leveraged, both to raise the necessary funds and to increase returns
  - Transactions often involve “exits” at FC or at completion

  Examples: Meerwind (Blackstone), Butendiek (wpd & 4 investors), C-Power (DEME, Belgian regional investors + utilities)

Financial investors

- **Passive minority investments**
  - Minority stake behind a utility which remains in control and typically keeps the full construction risk

  Examples: Anholt (DONG / PensionDanmark), Gunfleet Sands (DONG / Marubeni)

Financial investors

3. The equity

Emerging strategies

- **Large scale consortia**
  - Round 3 specific: very large development zones developed by consortium of utilities
  - Strategies to "slice and dice" zones still under consideration, but different tranches have been sold to different investors

  Example: SmartWind (first 2 GW sold to DONG)

- **Passive investment with construction risk**
  - Financial investors seeking higher returns are increasingly considering taking construction risk
  - This can be done via pure equity investments or through leveraged transactions

  Example: London Array (Masdar), Butendiek (PKA, IndustriesPensions, SFS, Marguerite)

  With PF

  Financial investors

- **Minority stake in assets with use of PF at the holdco level**
  - Allows the majority owner (usually a utility) to keep full control of the project with limited external interference
  - Provides higher returns to investors and stronger minority rights (backup from banks)

  Examples: Gunfleet Sands (Marubeni), Walney (Ampere/PGGM), London Array (Masdar)

  With PF

  Financial investors

- **Refinancing of operational assets**
  - Large brownfield market expected as operating assets top 5 GW
  - Various strategies seem possible (majority/minority stakes, use of PF or not, portfolios vs single assets)

  Examples: Rhyl Flats (GIB, Greencoat), Boreas (TCW + banks), Rødsand (E.On)

  With PF

  Financial investors

3. The equity

A solid consortium (committed in August 2013)

- **A majority investor in charge – Northland Power (60%)**
  - Experienced IPP with long successful track record in North America
  - Project finance "in their DNA"
  - Dutch regulatory regime and project structure fully in line with corporate policy (regular dividend distributions)
  - As a quoted company, the market reaction to the investment was immediately visible – and favorable
  - Active participation to the contractual negotiations from the moment of their involvement in the project

- **Strong support from the contractors**
  - Siemens (20%) and Van Oord (10%) both providing equity support to the project
  - These investments reinforce their contractual commitments under the construction contracts
  - Both bring a wealth of sector-specific experience, and a long track record of successfully completed projects

- **A mezzanine lender - PKA**
  - A tranche of subordinated debt was also successfully raised, following a competitive process
  - Northland Power is also providing a portion (40%, ie EUR 80 M) of the mezzanine tranche
  - Fully subordinated instrument – behaves as equity from the perspective of the senior lenders

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4. The debt

A word on timing

- **The transaction was closed in record time**
  - 1 August 2013 — Equity group announced
  - Early September — New sponsor group approves debt TS to be presented to market and bank approach strategy
  - Late September 2013 — Socialisation meetings with commercial banks
  - 1 November 2013 — RfP sent to banking market, including IM, TS, full DD package and model
  - 14 December 2013 — Sufficient volume of commitments received
  - 31 December 2013 — Selected banks notified and asked to accept harmonised structure
  - 24 January 2014 — Mandate letter signed with 10 commercial banks, including detailed debt TS
  - 3 March — Final TS approved by all parties and multilaterals
  - March / April — Formal approvals by all lenders
  - 14 May 2014 — Financial Close

- **What made this possible**
  - No major open issues when RfP issued – the result of 2 years of preparatory works
  - A fair package (including advanced draft contracts and correspondingly well progressed due diligence) presented to the banks from the start, which could be accepted “as is” (or with minor comments) by enough banks
  - Full focus of the sponsor group on the transaction, to ensure their rapid reaction to other transaction parties at all times
  - Pragmatic decision making by sponsors to ensure that reasonable banks requirements were incorporated
  - … a bit of luck as there were no competing transactions in the market (but luck favors the prepared)

4. The debt

An approach focused on existing market precedents

- **A traditional debt structure**
  - Re-using to a wide extent concepts (and sometimes detailed wording) from previous offshore wind transactions
  - Standard debt sizing criteria (70:30 leverage, 1.30 DSCR with P90 energy yield)
  - Full security package, including direct agreements, step in rights and extensive information covenants

- **Early involvement of the multilaterals**
  - As they can provide larger tickets, the nationality of suppliers and sub-contractors was a specific focus from the start
  - The specificities of their internal processes were taken into account from the start
  - EIB due diligence started very early to ensure preliminary “buy-in” of the transaction
  - ECAs and EIB kept informed throughout debt process

- **The homework was done**
  - Extensive due diligence process started long before banks were approached – in order to pre-empt issues
  - Transaction was “socialised” to the banking market in a preliminary round used to test the main structural features
  - Financial model, IM and full suite of DD reports up to the highest PF standards at time of bank launch

4. The debt

Final sources

EUR (M)		Risk	Funding*
Mandated lead arrangers Group A		**647**	**941**
ABN-AMRO	*Account bank; LC Issuing Bank*		
BNPP	*Documentation bank*		
BTMU	*Technical & Modelling Bank*		
Deutsche Bank	*Syndication Bank*		
EDC			
Natixis	*Market Bank*		
SMBC	*Facility & Security Agent; EH Agent*		
Mandated lead arrangers Group B		**164**	**228**
BMO			
CIBC			
Mandated Arrangers		**176**	**343**
BNG			
Santander	*Insurance Bank*		
Caixa			
PFIs		**1,112**	**587**
EIB		200	587
EKF		400	
EH		332	
Delcredere|Ducroire		180	
Total		**2,099**	**2,099**

** Includes Standby Loan*

4. The debt

Some notable features

- **Despite its size, the sponsors were able to obtain favorable terms**
  - Pre-completion revenues taken into account in the base budget (and only partly guaranteed by the sponsors)
  - Reasonable contingency budget, reflecting the strong contractual structure and risk mitigation features (redundancy, time buffers)
  - Favorable pricing (made all the more attractive thanks to current very low interest rate environment) with all-in rate @4.75%

- **Underwriting is back**
  - The most notable feature of the transaction is the size of the risk commitments of the commercial lenders
  - A large number of banks offered risk commitments substantially in excess of EUR 100 M, which is unprecedented in the sector
  - This allowed to raise a billion euros in commercial debts with a manageable bank group

- **The lending standards are not going down**
  - Banks are open to the sector, but are not lowering their standards to make transactions happen
  - Credit requirements take into account the experience from previous projects and developers need to be able to show that they have learned from previous problems and have anticipated these
  - The due diligence process is thorough, exhaustive, and the banks will not miss anything – and want everything solved properly
  - All issues not sufficiently pre-empted or mitigated properly will result in worse outcomes

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5. Some lessons

The main one: it happened !

- **There is money for offshore – if you do it right**
  - Banks are keen to lend to the sector
  - They are willing to take construction risk
  - They know what they are doing and expect you to have the same high standards for your project
  - Pick you battles, the project can deviate from the « standard » structure on 2 or 3 material items, but not more

- **You cannot do project finance if you don't intend to do project finance**
  - Develop the project with PF in mind from the start
  - Be aware from the start of bank requirements and market standards – you will NOT get around them
  - Full transparency is the only way
  - No amount of relationship pressure will convince PF bankers to do a deal they don't like

- **Process and coordination are everything**
  - With 16 creditors, 4 sponsors, a mezzanine lender, 2 contractors, several ECA-related sub-contractors, 4 major law firms, the volume of documents – and the number of approvals required – is staggering (literally thousands of questions during the bank invitation phase, thousands of comments during the documentation phase)

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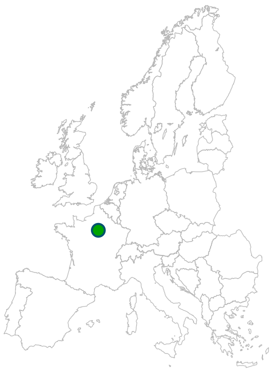
Paris



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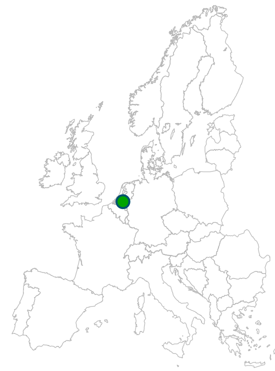

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