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Boreas: Second wind

19/11/2009

Centrica has closed the £340 million ($556 million) refinancing of its 220MW Boreas wind portfolio. The close date preceded, by two days, the entry of new third-party equity into Boreas – TCW Energy and Infrastructure, a subsidiary of Societe Generale Asset Management, bought 50% less one share of Centrica's stake in the portfolio, for £84 million on 26 October.

Part of the £340 million raised will go towards the £725 million Centrica/TCW will spend building the 270MW Lincs wind farm, 8km off Skegness, close to the Lynn and Inner Dowsing farms. Lincs will feature 75 turbines of 3.6MW each, construction will start in 2010 and the facility will be on-stream in 2012.

The 14-strong lending group on Boreas comprises BTMU (also debt adviser to Centrica), Santander, Bank of Ireland, BayernLB, BBVA, BNP Paribas Fortis, Calyon, Dexia, HSBC, KfW, Lloyds TSB, National Australia Bank, NIBC Bank and Rabobank. Tickets were originally to range from £30-85 million, but the deal's oversubscription meant that banks were scaled back to nearer the lower end of the spectrum. Pricing is 300bp over Libor to year five, 325bp to year eight and 375bp from year nine. Fees range from 235bp to 260bp, depending on ticket size.

The debt consists of a 15-year term loan, a working capital facility, a debt service account, a maintenance service account and a letter of credit. Though the tenor is set at 15 years on the term sheet, there will be a 100% cash sweep at year nine.

The portfolio includes the 194MW Lynne and Inner Dowsing farms off the coast of Lincolnshire and the operational 26MW onshore Glens of Foudland facility in Aberdeenshire. Around two-thirds of the revenues from the portfolio's 15-year power purchase agreement with British Gas are fixed and provide a 1.45x coverage ratio, while the remaining merchant revenue produces 1.95x. Slaughter and May was legal adviser to Centrica, and Linklaters advised the banks.

Banks were made aware of Centrica's plans to refinance in November 2008. In early 2009, they were given a tentative deadline of mid-February to enter credit-approved bids for a £450 million debt package, the price of which was being quoted at 275bp over Libor.

In March, the deadline was extended, and by May reports came through that the size of the loan, linked to the relationship between cover ratios and revenues, could be slimmed to £325 million following the fall in power prices and ROCs since the deal was first proposed. The initial price of the debt had also risen by 25bp, to 300bp over Libor, and BTMU was looking at a midsummer close date, with eight banks near firm commitment and four considering their options.

It was the end of July when the 14 banks approved a consensus term sheet, after being issued with a revised sheet in mid-June, which featured the reduced debt amount of £325 million (which rose to £340 million when the deal closed) and pricing starting at 300bp over Libor. At that time, it was clear that the closing date was likely to move around efforts to bring in a third-party investor, and the banks started to look carefully at the documentation's provisions regarding the creditworthiness of Centrica's potential equity partner.

However, it is too simple to say that the deal was held up by the equity side - lending into Boreas required detailed analysis of offshore risk, as well as the specific performance of recently-completed, though operational, assets. The combination of assets at different stages of development, added to the large number of banks looking at the deal, meant that due diligence took a long time.

Boreas is a deal that took a long time to get across the line. However, the fact that banks provided £340 million of 15-year debt for a deal featuring both operational and recently completed assets, including offshore wind, is something that those looking at developing such facilities going forward must see as a positive development in a risk-averse bank market.

A clear case in point is Warwick Energy's 560MW Dudgeon Wind Farm, which features Ernst & Young as financial adviser. The plant will be built off the Norfolk coast, and is set to cost around £1.5 billion. How it performs in the market in terms of how offshore risk is perceived and the speed with which it is mitigated and the deal gets away, will surely owe something to Boreas.

Boreas
Status: Financial close 28 October 2009
Description: Refinancing of the 220MW Boreas wind portfolio, comprising the Lynn and Inner Dowsing farms off Lincolnshire and the Glens of Foudland farm in Aberdeenshire
Mandated lead arrangers: BTMU, Santander, Bank of Ireland, BayernLB, BBVA, BNP Paribas Fortis, Calyon, Dexia, HSBC, KfW, Lloyds TSB, National Australia Bank, NIBC Bank and Rabobank
Financial adviser to sponsor: Bank of Tokyo Mitsubushi (debt), Credit Suisse (equity)
Legal adviser to sponsors: Slaughter and May
Legal adviser to lenders: Linklaters