Fred Olsen Renewables: Bundled up

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Fred Olsen Renewables closed the £303.5 million ($475 million) refinancing of its UK wind farm portfolio on October 31. The deal used a structure that wove in the financing of a planned 138MW onshore wind farm, Crystal Rig II, into the refinancing of three operational onshore wind farms.

Crystal Rig II is a 60-turbine farm to be located near to the existing 62.5MW Crystal Rig I facility, 40km east of Edinburgh. The three separate facilities used to finance the 50MW Rothes, 64MW Paul's hill and Crystal Rig farms – which were built in and around 2004 – were refinanced into a package that included Crystal Rig II's financing.

Fred Olsen felt that the pricing of the loan for new project would be better if it was bundled in with a cross-collateralised refinancing of the other three facilities, according to Nick Emery, managing director of Fred Olsen Renewables UK. Or, as Chris Andrew, a partner at Allen & Overy, which represented the developer, noted "day-one cash flow is always an attractive possibility, because people aren't looking at a naked construction period."

The debt portion of the refinancing was originally set to be £326 million, but "in the current market we thought it would be wise to put some more equity in from our end," said Emery. HSBC was financial adviser on the deal, and became one of five lead arrangers, along with Fortis, Nord/LB, BNP Paribas and Bank of Tokyo-Mitsubishi UFJ.

In 2004, UK tax rulings allowed finance leases on turbines and towers, which are counted as movable assets. So HSBC provided lease equity for the original financings for Rothes and Paul's Hill. The earlier tax treatment enabled smaller developers without adequate tax capacity to realise the NPV benefits of UK depreciation allowances. The UK tax laws have since been changed and there is now no viable leasing option on the new farm, participants said, though the 2004 leases are still in place.

Some £137 million of the loan is to be drawn against the new project, while the refinancing of the senior and junior debt amounts to £45 million and the refinancing of the lease letter of credit is £69.5 million, which is necessary since lease equity would not take project risk and requires cash collateral. The project has also raised a £17 million debt service reserve facility and a £5 million working capital facility, both of which, according to one source, are from HSBC alone, and a £30 million construction and operation letter of credit for Crystal Rig II. Some of these facilities replace smaller ad hoc letters of credit that Fred Olsen had taken out for the projects using corporate guarantees.

The five banks have equal allocations, and the pricing on the refinancing starts at 140bp over Libor, moving up to 155bp over Libor after five years and up to 165bp over Libor after 10 years. The debt for the new project is priced at 150bp until completion in 2010, when it tracks the existing assets. Pricing on the debt rises after 2020 in relation to the percentage of the portfolio's capacity contracted under PPAs falls sharply then. For the existing projects these last until 2020 and 2021 and for Crystal Rig II its contract runs till 2017. Pricing will be 195bp if none of the capacity is contracted.

Fred Olsen started thinking about the refinancing towards the end of 2007. "We started working on this in earnest in April and May," said Emery. "If we hadn't tried to close this now we would probably have had to try to do something next year. But who knows that the market next year is going to be any better than the market this year?"

The project moved slower than it would have before the crunch, but Emery felt that the delay was no more than "a few weeks." Lenders have been given an option to call the loan, which nominally matures in 2027, in 2021. At this stage lenders hold a vote, and if a majority assents, the loan is extended, with no-voters bought out by the project or other lenders. "It was all to do with getting the overall risk down from a tenor point of view to attract potential participants," said one banking source.

The Crystal Rig II farm will be brought online in phases, with the first power expected to flow into the grid in last quarter 2009 or first quarter 2010. A combination of fixed- and variable-price PPAs at the various projects presented a variety of different risks. "One of the challenges was to blend in Crystal Rig II, which has a short PPA by comparable standards with other projects," one lender said.

The PPAs of the operational farms, signed with power company E.ON, are fixed-price and expire between 2020 and 2021. EDF has agreed a seven-year PPA from 2010 for the Crystal Rig II farm, at a variable price. "It is basically merchant, with a floor price of around £17.5/MWh ... and they are committed to buying all the ROCs [renewable obligation certificates] and LECs [levy exemption certificates]," said one participant.

The fixed-price PPAs on the existing assets were struck when power prices were lower than they are now, and EDF's relatively short PPA is tied to time-weighted average wholesale market prices. "The overall cash flow is still very much contracted ... it's a healthy balance ... [the variable PPA] was a route to market but the lenders were looking at the security embedded into the overall electricity price and the [green certificate] system," said one banker familiar with the deal.

Future wind projects can be brought into the structure, if additional lending capacity can be found. "The structure allows us to bring in other wind farms under predefined criteria but there is no commitment from the [current] banks to fund it ... we can bring [new investors] into this structure, then effectively they would share security with the existing portfolio," said Emery. The criteria assures existing lenders that the new projects would not dilute the financing of the portfolio in place. There is a framework where financing can be provided for a new project, and [the developer] does not have to start the process all over again with its relationship banks or new banks.

Fred Olsen Wind Holdings Ltd
Status: Closed 31 October
Size: £337.5 million
Location: Scotland
Description: Financing and refinancing of 314.5MW wind portfolio
Sponsor: Fred Olsen Renewables
Debt: £303.5 million
Equity: Around £34 million
Lead arrangers: HSBC, Fortis, Nord/LB, BNP and BTM UFJ
Financial adviser: HSBC
Legal advisers to the developer: Allen & Overy, Wright Johnstone & Mackenzie
Legal adviser to the lenders: Norton Rose, Dundas & Wilson
Technical adviser: Garrad Hassan
Market consultant: Ilex Poyry
Insurance adviser: JLT Risk Consulting