Global Portfolio Deal of the Year 2007

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Babcock & Brown Wind: Risk reduction

The first financing of a global portfolio of wind assets, the Eu1.03 billion ($1.45 billion) refinancing and re-leveraging of Babcock & Brown Wind Partners' (BBW) portfolio, reached financial close on 25 May 2007 with the four lead arrangers – Banco Espirito Santo, Millennium BCP, Bank of Scotland (BoS) and Dexia Credit – syndicating to a futher 11 banks on 17 August.

The facility is significant in providing BBW with corporate debt pricing and the flexibility to annex other debt as it brings more wind farms into the fund, more efficiently than on a project-by-project basis. "The deal lies between a corporate and project financing," says Ian Harding at Babcock & Brown Infrastructure Division, "and benefits from significant regulatory, wind and turbine risk diversification."

The financing is also significant for its multi-currency structuring – with three separate financing companies matching the euro, US dollar and Australian dollar revenues with liabilities to provide a natural currency hedge: "One of the most challenging aspects of the deal was the legal complexity involved with dealing with several different jurisdictions and time zones," adds Harding.

BBW's association with the developer arm of Babcock & Brown means that the fund is predestined to grow substantially larger, and the financing provides the flexibility to achieve its aims. Babcock & Brown has a global wind energy development pipeline in excess of 16,000MW to be delivered over the next eight years, some of which will feed the BBW fund subject to appropriate economics and approvals.

BBW also has a further two conveyor belts of assets beyond the Babcock & Brown development pipeline under two separate framework agreements: one with Gamesa and the other with a German developer, Plambeck. Under the framework agreements, as long as a deal meets certain criteria, the developers are obligated to sell the assets to BBW, and BBW is obliged to take them.

The original financing comprised a 15.7-year Eu752.5 million term loan facility, a Eu237 million construction facility, a Eu12.8 million working capital facility, a Eu14.6 million VAT/GST facility and a Eu13.8 million letter of credit and guarantee. BBW can draw down the facilities at the prevailing exchange rate in whichever currency it requires (whether A$, US$ or Eu) and repay its borrowings in that currency.

Around 75% of BBW's debt is hedged on a long term amortising basis. Based on the current capital structure, the estimated impact of a 100bp increase in interest rates is limited to a reduction of around A$6 million in net operating cash flow.

New facilities can be added into the portfolio if a debt service coverage ratio (DSCR) condition is met and a technical committee of the lead arranging banks approves the new facilities.

The financing has already been successfully upsized twice. A further Eu230 million was added to the facility in November to fund three US wind farms which were part of Babcock & Brown's US07 development portfolio and two Spanish wind farms acquired directly by BBW. All of the syndicate banks were invited into the deal, but a couple declined due to the short timing of the requests.

Another Eu430 million was added in December. BBW went for an underwritten deal with the four mandated lead arrangers given the need for "certain funds" to make the acquisitions before year end. The debt funds four wind farms in Spain as part of the Gamesa pipeline and the Capital Wind Farm in Australia. The deal is currently in syndication, and BBW has instructed banks to field interest from around five new banks to the transaction, which will help to create further liquidity and facilitate future debt raisings for new acquisitions.

The new facilities are added under the same debt sizing metrics as the refinancing – and have the same amortization profile – but their pricing is separately negotiated based on the prevailing market conditions.

Following the additions BBW's portfolio now totals 2430.6MW and consists of interests in 76 wind farms assets in 13 separate regions. The majority of the portfolio's revenue (79%) is secured through long-term fixed price power purchase agreements.

The refinancing is principally the culmination of the owner's efforts to diversify its exposure to these different regions and obtain the benefit of a portfolio effect from bank lenders.

The portfolio effect is the reduction in energy production variance at the portfolio level compared with the sum of the energy production variances of the individual wind farms – that is, the portfolio P90 (90% certainty that generation will be above this level) is closer to the portfolio P50 (50% certainty that generation will be above this level) than the summation of each individual wind farm's P90. The transaction's independent engineer, Garrad Hassan, estimates the P90/P50 ratio is 90.1% compared to 83.8% without the portfolio effect.

The deal is structured to encourage a refinancing as there is a cash sweep mechanism which kicks-in in June 2010. "There is no pressure to refinance in the current market," says Harding. "We aim to refinance in good time, after evaluating the available options and most attractive economics for BBW, before June 2010, but there is no event of default. The debt was structured in this way to provide maximum flexibility to BBW, facilitate further growth through the additional facilities as well as achieving the appropriate debt-sizing over a long tenor."

Babcock & Brown Wind Partners refinancing
Status: Financial close 25 May, syndication closed 17 August 2007, annexed Eu230 million debt secured November, Eu430 million underwritten in December
Description: Eu1.03 billion refinancing of BBW's portfolio
Sponsor: Babcock & Brown Wind Partners
Mandated Lead Arrangers: Banco Espirito Santo, Millennium BCP, Bank of Scotland (HBOS) and Dexia Credit Local
Syndicate banks: Bank of Ireland, Commonwealth Bank of Australia, Depfa, IKB, KBC, KFW, Natixis, Royal Bank of Scotland, Santander, Societe Generale and Westpac
BBW legal advisers: Clifford Chance, Mallesons Stephen Jones (Australia), Millbank (US)
Lenders' legal advisers: Freshfields, Allens Arthur Robinson (Australia), Bonn Schmitt Steichen (Luxembourg)
Technical adviser: Garrad Hassan
Tax adviser: Ernst & Young
Model Auditor: Mercer