C-Power: Neat use of mezz

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The first offshore windfarm project financing in Belgium and only the second to reach financial close globally (Q7 being the first last year), the C-Power deal is the first of two phases in a project that could end up at 300MW total capacity.

C-Power has been 10 years in the making and is a special purpose company comprising DEME/Dedging International, Ecotech Finance (environmental holding company of the Walloon investment company SRIW), EDF Energies Nouvelles, NUHMA (an investment vehicle for electricity and utilities) and Socofe (investment company of the public administrations of the Walloon Region).

The project is to be built 28 km off the Belgian coast near Zeebrugge by REpower Systems (REpower) and Seawind (a consortium of Dredging and Fabricom GTI) under separate construction contracts, with a 38.7 km 150 kV sub-sea cable to be supplied by ABB. Construction is underway and phase 1 is expected to be completed by 1 October 2008 at a total cost of Eu153 million. The first phase will produce 120 GWh p.a. of electricity and save 45 000 tons annually of carbon emissions.

The project – if it all gets built – will make a significant dent in Belgium's EU renewable obligation. The first phase is only six 5MW REpower turbines and is effectively a commercial reliability test case, with the 54 turbine second phase likely before or around summer 2008.

With C-Power lead arranger and sole underwriter Dexia, and mezzanine provider Rabobank, both also having taken lead roles in Q7, similarities between the deals are easy to find: Both financings feature contingent facilities that provide construction risk comfort (cover cost overruns and delays) and both feature strong availability guarantees from the turbine manufacturers thus offsetting technology and availability risk.

Details of C-Power's REpower availability guarantee are under wraps – the manufacturer has put up a sliding scale guarantee where very low availabilities are punished very heavily while technological hiccups attract a small penalty. But given the REpower turbines are new technology (unlike Q7 where the Vestas turbines has been tested on the Horns Rev project), have only been partially tested on the Beatrice Wind Farm Demonstrator project in the UK, and REpower wants a stake in the offshore turbine market, the guarantee is likely to be highly favourable to the sponsors.

The technology issue was a big one for the lenders. Given years of experience of offshore oil and gas construction in the North Sea the construction risk on offshore wind farms is minimal – it is on the unknown operation and maintenance (O&M) risk that lenders need comfort. Although the tenor on the REpower guarantee is confidential, the O&M contract runs for 10 years. The project also benefits from a comprehensive insurance programme with Ethias and other specialized insurance underwriters in the London market.

The C-Power financing comprises Eu111 million in 15-year senior non recourse debt from Dexia, a Eu20 million subordinated non recourse mezzanine facility from Rabobank and Eu76 million in short-term facilities in support of construction contracts again from Dexia (these are effectively duplicated facilities that are repaid from the long-term debt).

Debt pricing on the two deals is different with C-Power appearing to come in slightly tighter: On Q7 the construction margin ranges from 125bp to 185bp over Euribor depending on whether the project is operational by March 2008 (the base case during construction is 155bp). After construction, margins on projected average scenarios are 165bp during the first 4.5 years and 185bp for the final 5. The DSCR is projected to be 1.35x at P90 wind levels. On C-Power the DSCR is 1.3x and the margin range from 100bp to 190bp with the senior loan averaging 120bp.

But given the different tenors on the deals – 11 years for Q7 and 15 years for C-Power – the actual cost of debt is not dissimilar, albeit a tad tighter on C-Power: Q7 had to come in at a shorter tenor because the Dutch government has changed the subsidy level for future wind projects and so it was important for the banks to get their money back within a 10-year price frame. Conversely, C-Power is backed by a strong Belgian government subsidy regime that runs for 20 years and equates to a fixed purchase price of Eu107 per MWh.

An innovative part of the C-Power deal and one not used in Q7 is the use of mezzanine to cover part of the sponsor equity and give the sponsor the facility to negotiate a lower price power purchase agreement (PPA) – as yet not in place – to the predicted PPA price level agreed with the lenders. The banks were unwilling to take price risk so the mezzanine can, in effect, be used to top up any price difference between the future PPA and the PPA forecast pricing on which debt pricing is predicated.

With two other Belgian offshore deals in the pipeline – Belwind and Electrawind – and what appears to be significant Belgian political backing (the Belgian government changed the law to facilitate the project), C-Power will not be a Belgian one-off. Elements of the deal are also certain to find their way into future Dutch and UK offshore deals.

C-Power
Status: Financial close 23 May 2007
Description:
First offshore windfarm in Belgium
Debt: Eu111 million
Mezzanine: Eu20 million
Sponsors: DEME, Ecotech Finance, EDF Energies Nouvelles, NUHMA, Socofe
Lead arranger and underwriter: Dexia
Mezzanine lender: Rabobank
Lender counsel: Watson Farley & Williams, Loyens Advocaten
Mezzanine counsel: Allen & Overy
Sponsor counsel: Allen & Overy
Lender consultants:
Mott MacDonald (engineer), SgurrEnergy Ltd (wind), James Ingram & Associates (offshore engineering), Jardine Lloyd Thompson Limited (insurance)
Sponsor consultant: Technum (technical)