

Pushing the Evelop

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Utrecht-based Evelop International, which is a wholly owned subsidiary of the Dutch group Econcern, is currently responsible for the development of several of the largest offshore wind farms in Europe.

Evelop's portfolio of projects, either operational or still at the planning stage, includes biomass, onshore and offshore wind, as well as seawater air-conditioning plants. And the planned 315MW Sheringham Shoal wind energy project, a 50:50 joint venture with Hydro of Norway, will be one of the world's biggest offshore wind farms.

In May of this year Evelop International took a controlling interest in Seinen Projectontwikkeling, an innovative Dutch real estate developer that builds affordable low energy housing. The Econcern group has been co-operating with Seinen for several years, and Seinen's project development activities will be integrated into Evelop International BV, as part of a new Evelop Real Estate & Energy Infra department.

In addition to having experience of the available technologies, parent company Econcern also looks to add value from its innovative approach to financing, and last year broke new ground by successfully putting in place non-recourse bank debt on the Q7 project, with Rabobank and Dexia Credit Local as lead arrangers.

Adding value with Q7

The Q7 wind farm comprises 60 Vestas turbines, and from March 2008 will be working at a capacity of 120MW. The total project cost is Eu383 million. The components for the first 20 turbines arrived in The Netherlands in June, and work started on installing them out at sea. All 60 turbines are expected to be installed and ready for testing in September.

Q7 was a tricky project to finance, partly because there is no single EPC contractor, but instead a number of contractors who must work closely together, making management of the interface risk a crucial element for bank lenders.

This is particularly true of a new technology such as offshore wind, where project delays and cost overruns are much more of a concern than in onshore projects. Since turbine manufacturers do not have the expertise to construct the platforms far out at sea, they have to rely upon other specialised contractors. As a result, few turbine manufacturers would be prepared to sign a turnkey contract as they do on onshore wind farms, where performance guarantees making such projects highly bankable.

Nonetheless, in spite of all the challenges, Q7 project sponsors ENECO Holdings, Econcern and Energy Investments Holding, were able to get non-recourse debt put in place from the start of the construction period.

The financing package includes an 11-year Eu219 million facility which was fully underwritten by Rabobank, Daxia and Eksport Kredit Fonden, which is providing a Eu68 million guarantee in order to support Danish turbine supplier Vestas.

There is also a Eu160 million short-term construction facility provided by Rabobank and Dexia. This includes a contingent facility (together with contingent equity provided by ENECO) to cover any cost overruns or delays, plus a cash sweep mechanism, and availability guarantees provided by Vestas to cover any underperformance of the turbines over the life of the project. BNP Paribas also came into the financing as the financing package was put in place.

Diversifying funding

The Q7 financing is expected to provide a template for many other wind projects around the world, both for Evelop and other developers. "The project finance approach that we took with Q7 is one that we will want to take with other offshore wind projects, but the specific structuring, for example to optimise tax benefits, will differ from country to country," says Lars Valk, managing director of Energy Investments Holding, and part of the management team at Evelop International, with responsibility for project funding.

"In addition, we are also in process of setting up an equity and mezzanine fund, and we will definitely use that to fund some of the equity needed in future projects," he adds, in a reference to the Ampere Fund.

Econcern noted in its last annual report that the growth of the market for sustainable energy is being supported by venture capital and private equity investments in clean energy, and that a number of banks have also announced their intention to invest billions of Euros in renewable energy projects.

Against this background, earlier this year Econcern reached an agreement with two institutional investors on the Econcern-dedicated Ampere Fund. This fund creates a structural base for financing larger wind and biomass projects, not only for project financing (equity and mezzanine) but also for developmental expenditures. The two cornerstone investors, whose identity has not been divulged, will invest 60% of the total fund of Eu425 million.

A contender for a similar funding package to Q7 is the offshore wind farm that will be built 30km off the coast of Scheveningen in the Netherlands, outside the 12 mile exclusion zone.

In April of this year Rijkswaterstaat Nordzee announced that the permit application, including the Environmental Impact Assessment, submitted by Evelop International and Ballast Nedam Concessies for the Scheveningen Buiten wind farm had been approved. This plant will generate around 300MW, with start up slated for 2011.

In the Netherlands, the MEP (environmentally friendly energy) subsidy on the feed-in tariff has changed since Q7, and a new MEP regime is expected to be announced by the government in the coming months.

More major offshore projects

It is not just in the Netherlands where Evelop is busy with offshore projects. It is also pressing ahead with sizeable projects in the UK and Belgium, bringing its total offshore wind project pipeline to 2,200MW.

In the UK, the concession has already been awarded for the 315MW Scira project, with construction start pencilled in for 2008 or 2009. Financial close is expected this year.

The Scira Offshore Energy development is located offshore from Sheringham in The Wash, eastern England, within the UK 12 mile exclusion zone. Total cost is estimated to be between Eu500 million and Eu600 million, with Evelop holding a 50% stake, and Hydro of Norway the other 50%.

"In Q7 part of the equity was raised through the upfront depreciation of the project, for which we utilised the tax base of third parties, since we did not have sufficient tax base to absorb the day one 100% depreciation," says Valk. "There may be a similar financing structure used in the UK, where accelerated depreciation is also available, and where we may want to bring in third parties."

But the biggest project of all is offshore from Belgium, with total costs estimated to be in the region of Eu800 million. This is the 330MW wind farm in The Economical Zone off the coast of Belgium, with the wind farm located 46km from the coast. This project is known as the Belwind Offshore Wind park, on Bligh Bank, and will comprise 66 5MW turbines, placed on the shoal where the sea reaches depths of 20-35 metres.

"The Bligh Bank project is part of Econcern's growth strategy, which involves a well balanced project portfolio spread over a number of countries," says Dirk Berkhout, a member of the Econcern board. "It is our largest project to date, and will also be one of Belgium's biggest sustainable energy investments."

Application for a concession to build the wind farm was submitted in April 2006, and exclusivity obtained in July 2006. The role of Evelop is to develop, finance and construct the wind farm. After receiving the concession from the Federal Ministry of Energy, the company hopes to begin construction in 2009, with the wind farm coming onstream in 2010.

These new projects are all likely to achieve higher leverage than Q7 did. "We have seen leverage of around 60% to 65% on previous offshore wind projects, but if you look at the experience gained with Q7, that should increase the leverage in future projects," says Valk.

Putting in place the foundations, the logistics of the construction process, and securing the interface agreements between various contractors were all new issues to be addressed on Q7, but bankers now have a large and complex project to look at, and assess how the interface agreements have worked.

Thus far no mandated lead arrangers have been appointed for either the Scira, Belwind or Scheveningen projects, but the various financings should start to be put in place late 2007 or early 2008.

Smaller projects

It is the large-scale projects that grab the headlines, but Evelop has a sizeable portfolio of small projects around the world, in sectors ranging from biomass to sea-water cooling plants.

Construction is planned for 2008 for an onshore wind farm in a business park in Oosterhout. The project, which goes under the name Weststad III, will be up to 15MW in size, and will cost between Eu15-20 million.

Another project with construction starting in 2008 is the onshore wind project Het Klooster, which will be 15MW (five turbines) and will cost between Eu15 million and Eu20 million. Evelop will co-ordinate the project development and construction, and will set up financial participation for residents of Nieuwegein, and companies located there.

In Poland there is a Eu3.3 million plant that will digest potato processing residues, manure and corn. Electricity output will be 1MW, with power and heating delivered directly to Farm Frites Poland SA. This project goes under the name Digestion Lebork.

And in Curacao in the Netherlands Antilles there is a sea-water air conditioning system for three hotels, including a Hilton, plus office buildings. The SWAC project will cost between Eu12-15 million, and is already under construction, with delivery due in 2008.

The company is also currently conducting a review of the various projects that came with the acquisition of Terra Nova last December. French developer Terra Nova was established in 2002, and has a portfolio of 66 onshore wind farms, mainly located in the Northern Region of France.

Some smaller projects may also be bundled to reach critical mass, also allowing them to be financed on a non-recourse basis.

Given all this activity, it is not surprising that Econcern increased its revenues and profits dramatically during the 2006 financial year, making Econcern one of Europe's fastest growing companies.

Revenues grew fivefold to Eu240 million, and profits rose even faster to Eu43.5 million (with the help of a Eu10 million extraordinary gain). As the market for sustainable energy looks set to continue to grow strongly, Econcern expects to double its revenues to Eu500 million in 2007, and has a target of 11% after tax profit.

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