# European Renewables Deal of the Year 2003

01/02/2004

RWE Innogy's Beaufort Wind deal is a lesson in how to handle the UK's new Renewable Obligations Certificate (ROC) regime. Not only does the structure eliminate UK ROC and wind risk for lenders - although that is largely symptomatic of the fact that the producer and offtaker are ultimately one and the same - it also incorporates the first off-balance sheet financing for an offshore wind farm, the 60MW North Hoyle on the Welsh coast. It also allows Innogy to meet its ROC requirements without bearing the capital cost on its own balance sheet.

In April 2002, driven by the European Commission Renewables Directive, the UK government approved the renewable obligation scheme which requires electricity suppliers to buy quotas of power from renewable sources with the receipt of a ROC worth around £47 ($85) per MW/h. For every MW/h the supplier fails to meet its renewable obligation, it is liable to a £30 buy-out escalated at inflation.

Initially the scheme ran until 2010 but it has since been extended to 2015. Under the new ROC plan renewable obligations increase from 10.4% of generated output to 11.4% in 2011 and incrementally to 15.4% in 2015.

Currently, Innogy satisfies a portion of its obligations through a portfolio of 13 onshore wind farms wholly owned by its subsidiary National Wind Power. The sponsor plans to move those farms -130MW in total - and its offshore North Hoyle development, into Beaufort and grow the vehicle to 20 UK wind farms with 430MW of capacity over the next three years.

North Hoyle is the UK's first major offshore wind farm. Construction, undertaken by a consortium comprising turbine manufacturer Vestas Celtic Wind Technology and Mayflower Energy, began in April 2003. Given lending uncertainty over offshore technology, and that there are 18 similar projects at the planning stage for UK waters, the financing structure sets a timely precedent.

The deal comprises £300 million of project-style debt and £112 million in equity for UK wind farm holding company Beaufort Wind, which will buy Innogy's wind farms post -construction.

Beaufort Wind is wholly-owned by Zephyr Investments, which in turn is 33% owned by RWE Innogy and 66% owned by two investment vehicles managed by financial investors - Englefield Capital and First Islamic Investment Bank (via Crescent Capital Investments) - with advisory from Augusta Finance.

With all the plants - current and future - expected to have existing revenue streams, Beaufort Wind is funded on a tight 85/15 debt-equity split. The debt drawdown will cover the initial acquisition but will not be for the full £300 million

The project financing comprises three tranches: 'A' will finance the existing farms; 'B' will finance subsequent acquisitions; and 'C' finances the offshore wind farm acquisition. The loan tenor is 18 years and margins are dependent on the asset - 110bp-140bp for the existing plants and 125bp-155bp for new acquisitions.

Seven banks have assumed the role of mandated lead arrangers to provide the £300 million 15-year (post-commitment) senior debt facility: BNP Paribas, ABN Amro, Bank of Tokyo Mitsubishi, Fortis Bank, Bayerische Hypo-und Vereinsbank,

Bank of Scotland and Royal Bank of Canada (also financial advisor to the sponsor). Each bank is underwriting £42.8 million.

The deal proved popular in general syndication in January 2004, with six banks joining the lead arrangers: Dexia; KBC; KfW; Royal Bank of Scotland; Credit Lyonnais; and Helaba. Dexia and KBC took £15 million each and the remainder £21.5 million a piece. The balance left of £26.3 million is with each lead arranger.

The project is backed by power purchase agreements with NPower which will replace the old NFFO (non-fossil fuel obligation) contracts for the existing plants as they run out and cover the price risk on the ROCs for new plants (NFFO prices were fixed whereas ROCs fluctuate). Consequently Beaufort has no exposure to merchant risk or NETA (the new electricity trading arrangement).

The deal incorporated some new legal intellectual property. Counsel had to devise a standard set of conditions of acceptance for new farms as they come up to operation - a set of precedents that both works and can be applied on aggregate portfolio type deals in other sectors - notably CHP and landfill. Legal lead counsels for the sponsors were Linklaters, Freshfields and Hammonds with Allen & Overy acting for the lenders.

In addition, insurance issues over the untested offshore market were largely resolved - a solution that could be applied to any true limited recourse standalone farms in the future.

Beaufort is a neat solution to tricky problems thrown up by the UK's ROC regime. The structure means that the banks take no construction or price risk - in effect it is a play on Innogy corporate risk and wind risk. And with the North Hoyle project being the first offshore farm structured on this basis, it provides other sponsors and lenders with a model for getting comfortable with the untested offshore market.

Beaufort Wind/Zephyr Project

Status: underwritten October 2003, syndicated January 2004

Description: first non-recourse wind farm facility for future developments onshore and offshore; first deal under new UK ROC regime

Sponsors: RWE Innogy; Englefield Capital; First Islamic Investment Bank

Lead arrangers: BNP Paribas; ABN Amro; Bank of Tokyo Mitsubishi; Fortis Bank; Bayerische Hypo-und Vereinsbank; Bank of Scotland; Royal Bank of Canada

Arrangers: Dexia; KBC; KfW; Royal Bank of Scotland; Credit Lyonnais; and Helaba

Financial advisor to RWE Innogy: RBC Capital Markets

Financial adviser to equity: Augusta Finance

Legal counsel to RWE Innogy: Linklaters; Bond Pearce (due diligence); Wright, Johnston & Mackenzie (Scotland)

Legal counsel to First Islamic Investment Bank: Freshfields Bruckhaus Deringer

Legal counsel to Englefield Capital: Hammonds

Legal counsel to lenders: Allen & Overy; Dundas & Wilson (Scotland)