

C-Power 2 and 3: Long-dated and deeply diligent

03/12/2010

C-Power closed the financing of the second and third phases of its offshore wind farm on the Thornton Bank on 25 November. With a maturity of 18 years, including a 3-year construction period, the Eu1.007 billion (\$1.35 billion) debt package is the longest ever financing concluded in the offshore wind sector. The deal is also the largest ever to be closed in the offshore sector and the first transaction where banks finance the installation and operation of 6MW offshore wind turbines.

The financing comes from a group of seven lenders - KBC, Rabobank, Societe Generale, KfW IPEX-Bank, Commerzbank, Dexia and ASN Bank - together with export credit agencies Euler-Hermes of Germany and EKF of Denmark, as well as the European Investment Bank.

The financing will fund the construction, between 2011 and 2013, of the second and third phases of the 325MW offshore wind farm, located about 30km in the North Sea off the Belgian coast. The project has a total investment cost (excluding contingencies) of Eu1.289 billion, which includes the refinancing of the already operational 30MW pilot phase. The pilot phase which closed financing in 2007, consists of six REpower 5MW offshore wind turbines.

The financing benefits from heavy ECA and multilateral support, with just Eu19 million of the senior term loan uncovered. The debt/equity split is 70/30, and average debt service coverage ratio (DSCR) is 1.30x at P90 wind production. The all-in average cost of debt is around 5% and the average loan life for the term loan is 7.25 years post-commissioning.

- The financing structure includes:
- Eu869 million in long term facilities;
 - Eu44 million in contingent facilities;
 - Eu36 million in stand-by letters of credit;
 - Eu58 million in equity bridge facilities.

		Funding		Risk	
Turbine Facility					
	EH Term Loan Facility	400	Commercial Banks	380	Euler Hermes
				20	Commercial Banks
EIB Facilities					
	EIB Facility A	450	EIB	150	EIB
	EIB Facility B			45	EKF
	EIB Facility C			255	Commercial Banks
Commercial Facilities					
	Commercial Term Loan Facility	19	Commercial Banks	19	Commercial Banks
	Contingent Facility	44	Commercial Banks	44	Commercial Banks

Total			913		913	
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	Total Funding	Total Risk
KBC Bank NV	97.970.508	64.202.932
Socit Gnrale	97.970.508	61.652.932
KfW IPEX-Bank GmbH	97.970.508	61.652.932
Rabobank	84.456.994	71.163.743
Commerzbank Aktiengesellschaft	56.304.663	41.101.955
Dexia Bank Belgium NV/SA	6.380.012	34.251.671
ASN Bank NV	21.896.258	3.923.285
Total (commercial banks)	462.949.449	337.949.449
Euler Hermes	0	380.000.000
European Investment Bank	450.000.000	150.000.000
Eksport Kredit Fonden	0	45.000.000
Grand Total	912.949.449	912.949.449

This is the first non-recourse offshore wind project financing in which Euler Hermes has participated, and the Eu400 million facility with a 95% commercial guarantee from Euler Hermes corresponds to the value of the REpower contract. EKF, the Danish export credit agency, is counter-guaranteeing Eu45 million tranche of the EIB package.

With facilities of Eu450 million, including a direct loan of Eu150 million, the EIB was a crucial source of funding and helped keep debt costs down. The project is also benefits from a Eu10 million EEPR (European Energy Programme for Recovery) grant.

The deal pushes forward continental Europes offshore wind financing template by persuading banks to accept construction risk. Energy Bankers à Paris, the advisory boutique founded by former Dexia bankers, largely developed the structure.

The sponsors and their adviser, engaged banks at an early stage, which gave lenders an early say in the negotiation of key contracts to ensure they were bankable. Despite the complexity of the phase 2 deal, which brought together 23 counterparties and produced 20,400 pages of documentation, it closed just five months after approaching the market.

The financing for the first phase of C-Power provided banks with a prototype on which they could improve. The Eu126 million financing of the 30MW first phase in 2007 funded the installation of six REpower 5MW turbines, and allowed banks to get comfortable with the incremental technical risk of moving to 6MW REpower turbines. C-Power completed the first phase project in June 2009, and since then it has achieved an availability rate of about 97%.

Project revenues benefit from Belgiums incentive regime for renewables. Generators receive green certificates worth Eu107 per MWh for the first 216MW of a project and Eu90 per MWh above that level, paid for by the grid operator, Elia. All of the green certificates and electricity that the project produces are sold under long-term contracts.

While banks are taking construction risk, lenders can look to a strong set of contracts and the involvement of marine civil firm Dredging Environmental & Marine Engineering (DEME) both as a contractor and a sponsor. The contracts, particularly availability warrantees from REpower, combined with in-depth due diligence allow the lenders to be comfortable with the potential cost overruns or delays. And a DSCR-triggered cash sweep mechanism protects lenders if the project performs poorly.

The latest C-Power transaction offers up two lessons for the active UK wind market, where lenders will next be asked to accept offshore construction risk - on the Eu1 billion Centrica/Siemens/Dong Lincs deal. Firstly, sponsors should try not to push too many risks onto to banks in one go: an incremental and phased approach will cut lead times. Secondly, if sponsors are not prepared to mitigate construction risk with guarantees or other undertakings, they must be prepared for very thorough, possibly intrusive, levels of due diligence. This may be uncomfortable for large utilities, but it is the price to pay for shifting risk in project financings.

The next set of deals with similarities to C-Power I, Belwind and C-Power II & III are likely to dispense with the participation of the EIB. Next up for offshore Belgium is the 300MW Eldepasco project, sponsored by Electrawinds, Depret, Aspiravi and Colruyt. The financing is set to be launched to market by mid-2011.

C-Power II and III

Status: Financial close 25 November 2010

Description: Eu1.007 billion combined financing of C-Power phases 2 & 3, and refinancing of phase 1. The phases have a combined capacity of 325MW.

Sponsors: SRIW Environnement, Socofe, Nuhma, DEME, EDF-EN and RWE Innogy

Mandated lead arrangers: KBC Bank (ECA bank), Société Générale (technical and hedging arranger), KfW IPEX-Bank, Rabobank (modelling and docs), Commerzbank, Dexia and ASN Bank

Non bank debt participants: Euler Hermes, EKF and EIB

Financial adviser: Energy Bankers à Paris

Borrower legal counsel: Allen & Overy

Lender legal counsel: Watson, Farley Williams and Loyens Loeff

EKF legal counsel: Kromann Reumert

EIB legal counsel: White & Case

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