France's PPP bonanza pushed into 2011, but renewables even further

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France was never meant to grow into a PPP powerhouse. During the middle of the last decade, while other jurisdictions tried to extract greater feats of complexity from the private sector, the French dailly obligation, which featured little performance risk, made for low-margin, straightforward business.

Post-crunch, the broader European PPP market moved into sync with the French conception of risk transfer, just as the French state rolled out a guarantee product that surpassed most of the post-crunch palliatives for weak lender appetite. The full debt guarantee could only be used for designated major projects and was set to expire at the end of 2010.

For all this support, big deals have still been a long time closing, and several have fallen by the wayside, most notably the Reunion Tram-Train, which was set to be the first deployment of the state guarantee. The French overseas department, located in the Indian Ocean, decided to drop the project in June, after deciding that despite the presence of substantial central government grant money, its limited contribution would be better spent on a road.

The preferred bidder on the Eu1.6 billion ($2.1 billion) project, a consortium of AXA Private Equity, Bouygues, Bombardier, Colas and Veolia, had indicated that it might try and enforce a Eu200 million termination payment, but by June the CFO of Bouygues, Philippe Marien, was admitting that the project was dead. The incoming UMP government ran on a platform of opposing any tram-train project with a public contribution, and set itself against any revival.

Local deals and their discontents

The travails of the Tram-Train illustrate some of the perils inherent in the increasing decentralization of PPP in France. Given the degree to which public services are decentralised in France, and the difficulties that local authorities and municipalities have in grouping together for projects of a similar type, local administrations are often tempted to bring newer, larger and more complex asset types to market, the better to attract the large national sponsors.

Local governments experience until recently in PPP consisted of leasing-based transactions for accommodation projects, deals which involved little risk transfer, no equity, and capacious bank balance sheets. Since the crunch, and noting regulators warier approach to banks asset quality, most French institutions have left the market. Only one Credit Agricole Leasing remains open to these SPV-less local government deals.

Instead, local government is looking to bundle a variety of related services say roads maintenance, street lighting, and maybe video surveillance into a single PPP contract. They look at something like the Portsmouth street scene PFI [which went to a French sponsor, Colas, in 2005] and how that might be adapted, notes one banker active in French PPP. But what works for Paris, which closed a Eu78 million video surveillance PPP with sponsors Ineo and Citelum and debt arranger SG, will not transfer to smaller cities easily.

Bankers are hopeful that the larger sponsors might be able to bundle their smaller local projects into something more digestible, though this means persuading the local subsidiaries of the larger French sponsors and their local authorities to loosen their dependence on the local caisses. We saw Bouygues attempt something similar to this when it put together the Challenger Investissement fund with Depfa, though it did not get much traction, notes the PPP banker.

Such solutions are necessary because PPP expertise is still concentrated in the hands of a few of the largest French construction groups Bouygues, Eiffage, and Vinci and there are few signs of upstart sponsors emerging to challenge them. The three, for instance, are are each leading groups bidding for the Balard accommodation PPP for the French ministry of defence, a 30-year design-build-finance-operate concession to consolidate the various French armed services operations at a single site in south-western Paris. The Eu1 billion deal was meant to be awarded in September 2009, but is now likely to see a winner named in the first half of 2011.

RFF rolls out

Similar delays have dogged the slate of three high-speed rail lines to be procured by state-owned Resau de Ferre de France (RFF). RFFs first PPP deal, the GSM-R communications contract, was dragged into the bankruptcy of Nortel, which had the contract to supply the Vinci/TDF/AXA/SFR consortium that held the concession.

The Eu1 billion financing finally closed in February, with Credit Agricole CIB (bookrunner), BBVA, Santander, KfW, BayernLB, Dexia, Credit Agricole Leasing and SMBC as lead arrangers of a Eu600 million commercial tranche and Eu280 million coming from the EIB, and Eu130 million coming from the Caisse des Depots et Consignations. The financing benefits from an 80% dailly post-completion guarantee, which means that 80% of the availability payments will be forthcoming regardless of the concessionaires performance.

Delays have also afflicted the three high-speed rail lines, though there is little sign of disquiet among Parisian bankers no longer fret about the end-of-year deadline to qualify for a full state guarantee. Projects will now qualify if the procurement authority had received its approval for a guarantee from MAPP [the French central PPP unit] by the end of the year even if the deal has not closed, says one banker close to the process.

So Eu7 billion Tours-Bordeaux, the first of the three lines, will get its guarantee even if, as seems likely, it slips into the first quarter of 2011. The Vinci-led preferred bidder consortium is in the process of tying in a bank group, with BNP Paribas, Credit Agricole and SG out in front, and making sure the lenders are comfortable both with the projects suite of subcontracts and the revenue risk. While the Eu3 billion in commercial bank debt benefits from the state guarantee during construction, and is set to benefit from a dailly piece post-completion, lenders, which have been asked to write tickets of up to Eu400 million, want to make sure their residual 20% exposures are covered off.

It is likely that the other two HSR lines Bretagne-Pays de la Loire and Nimes-Montpelier will at least be awarded in 2011. Bretagne-Pays Loire, a Eu2.8 billion deal with Eu600 million EIB debt under consideration, may have a preferred bidder named in January. The big three Vinci, Eiffages and Bouygues are currently holding a competitive dialogue with RFF about the Eu1.4 billion Nimes-Montpelier line, and a winner should be known late in 2011.

Energy starts and ends with Exeltium 2

The major French lenders are comfortable with this string of lumpy projects in 2011, in part because energy deal flow in France will be so patchy. The decision by Poweo/ Verbund sponsors of the Toul combined-cycle gas-fired plant to pull a Eu500 million project financing, and use balance sheet funding instead, illustrates that even where sponsors can assemble an independent power project that stacks up adequately with EdFs cost of generation, they have to provide so much comfort to lenders that a corporate finance option looks more attractive.

Renewables lenders face a similar mindset within policy-making circles for Frances power industry that there is little point trying to compete with the EdF nuclear fleet. Whereas in a market like the US the low-cost alternative is coal and to favour coal is to ignore its carbon emissions in France nuclear has its low-carbon partisans. Making the fuel diversity argument in France never seems to get much traction, laments one French power banker.

There was a victory for the status quo in the 9 December decree that the French government submitted to the Conseil Supérieur de lEnergie, or French supreme energy council, which suspended the awarding of new feed-in tariffs for three months from 10 December. The suspension would apply to plants which are not interconnected, or had not agreed a financial and technical proposal with the grid operator by 2 December.

At the end of the suspension there is likely to be another drastic cut to the PV tariffs on offer, following earlier cuts in January and August, which did not have the desired effect of reducing the queue of developers seeking connection. The size of this queue is the ostensible reason for the suspension, though opinion varies as to how great the queue is. The governments estimate of near 4GW is on the high side compared to industry estimates of 2.5GW, though both are much higher than the governments target of 1GW, and roughly 800MW are set to be connected by the end of the year.

But the decree, as currently drafted, according to some interpretations, would affect projects that are financed but not yet interconnected, though it is unlikely that a project lender would fund without at least a projects interconnection proposal being accepted. There is, however, considerable anger in lending circles at the way the new decree has been drafted, since it takes much more drastic steps to curb development activity than its fellow victims of PV success in Spain and Italy.

As recently as a month ago, bankers were looking at roughly 3-5 solar PV deals of larger than 30MW per year. The most recent deal to close, the Eu93.5 million financing that BNP closed for the 30MW Lavansol portfolio in the Les Mees region, demonstrated healthy appetite for solar PV equity, a respectable 18-year tenor and pricing that is believed to be below 250bp over Euribor. Developer Eco Delta, advised by Aurion, brought in Sumitomo Corporation to take a 49% stake.

Sumitomo took the equity stake ahead of proposals from several renewables-focused equity funds, for its first investment in the French PV sector. There is probably some financing activity to spring from additional consolidation in the French solar sector, since most installations have been by small developers, and limited to 12MW to qualify for feed-in tariffs, though several larger developers got round the size restriction by placing projects a minimum distance apart.

Complaints from French energy bankers are the mirror image of those in PPP that the feed-in tariff has attracted too many small developers, rather than well-known, and bankable, names. Still, the entrance of a large name like Sumitomo, not to mention institutional investors like DIF, which recently bought 85% of a solar portfolio build on the roofs of Casino-owned supermarkets, is promising.

The new rules for solar PV should be in place by March 2011, but the suspension also reflects governments frustrations that the feed-in tariff has made little contribution to the development of a domestic supply chain in solar PV. These considerations are paramount as the French ministry of ecology plans to issue a call for tenders for 3GW of offshore capacity early next year. The tenders, for capacity within specified zones, were once expected in October, but are again set to go to market in mid-2011. Maybe we can shift some resources from PPP to renewables in 2012, muses one global head at a French bank.

Even with this push, developers will need to contend with patchy wind data within some of these zones, steeply shelving coastline that forces developers to build close to the shore, and entrenched opposition in the more scenic areas to wind farms. Nevertheless, national champion Alstom, probably the main domestic beneficiary of the tenders, gamely announced plans for a 6MW offshore turbine and its intention to bid on the tender.

Still, the power of the nuclear lobby, while creating a weak backdrop for renewables development, bodes well for the second phase of the Exeltium nuclear capacity financing. Exeltium essentially monetised the proceeds of power purchase agreements with large industrial users of nuclear power to finance EdFs capacity additions.

The programme was split into two and restructured in the face of EU objections, but a Eu1.7 billion first phase closed syndication in March 2010, though with limited non-French participation. A second phase of Eu2 billion is likely to launch next year, and while this represents a slight slip in timetable, bankers working on the deal (essentially any French bank of size), are confident that the second phase will spend less time in development hell than the five-year first phase.