

Robin Rigg: OFTO's debut financing

11/04/2011

Transmission Capital Partners closed financing on the Robin Rigg Offshore Transmission project (OFTO) on 1 March 2011. The deal is the first OFTO project to close, and this led the sponsors to adopt conservative gearing with a tight-knit three-strong bank club. The borrower is TC Robin Rigg OFTO, and all equity for the project comes from International Public Partnerships Limited (INPP), but Transmission Capital Partners comprises INPP's manager, Amber Infrastructure, which manages INPP, and Transmission Capital.

OFTO projects entail the ownership and operation of transmission cables connecting offshore wind farms to the UK's electricity grid on the mainland. British electricity and gas regulator Ofgem (the Office of the Gas and Electricity Markets) launched the first round of nine OFTO tenders in 2009.

Of the nine first-round projects, Robin Rigg, Barrow and Gunfleet Sands concerned already operational wind farms, and Ofgem selected Transmission Capital Partners as preferred bidder on all three in August 2010. The consortium then won the Ormonde contract in October, for a project that is scheduled for completion in mid-2011.

The Robin Rigg project entails the 20-year ownership and operation of the transmission cable connection to the 180MW Robin Rigg offshore farm, owned by E.ON, 12km off the Cumbrian coast. The asset life is much longer than 20 years, however, and whether it continues to be operational beyond this point is dependent on whether or not Robin Rigg itself is decommissioned.

The cable connection comprises an onshore substation and the undersea cables between the mainland electricity grid and the wind farm. Robin Rigg is the only OFTO project not to also comprise an offshore substation as well, and the assets' relative simplicity accounts for the deal's early financial close.

The project has no construction risk, as the transmission line has been operational since 2010. To reduce the complications that would come from coordinating with the wind farm operator, Transmission Capital decided to retain E.ON as the operations and maintenance contractor. E.ON also has access agreements in place with the consortium. National Grid Electricity Transmission (NGET) is providing £6.5 million (\$20.5 million) in availability payments (linked to the UK retail price index), with potential deductions to this amount capped at 10% per year. Transmission Capital specified the maximum availability payment as part of its bid.

These availability payments mean the deal has no demand-based risk, and is insulated from variations in wind farm performance. Furthermore, the linking of these payments to RPI makes the project even more attractive to investors. The potential 10% deductions offer a strong incentive to the sponsors to ensure smooth operation, however, as a significant outage might result in recurring deductions over several years, rather than merely a 10% cut in the year of the outage. To mitigate this, the consortium has insurance in place covering events such as breakages and interruption to operations.

The consortium also had to pay a £65.5 million fee for acquiring the asset, an amount set by Ofgem and not subject to competitive bidding. This fee acknowledges that the consortium is acquiring an already operational asset. The transfer price was originally set at £58 million, but Ofgem increased it in November 2010 after re-evaluating the interest rate paid by E.ON during the lines construction.

The sponsors wanted to avoid complicating the first OFTO financing by having to consult a large bank group. Transmission Capital selected Lloyds, Barclays and BNP Paribas, on the basis of their renewables experience and ability to supply long-term debt.

The three banks arranged the £66.1 million 19-year term loan, with contributions split equally between the three. The debt tenor leaves a one-year tail before the end to the concession. Banks used PFI deals with similar availability levels as a pricing benchmark, putting the margin in the low 200bp region. The deal is geared at 84% senior debt, with INPP contributing £10.4 million in equity, and the banks are understood to be providing £2 million in subordinated debt. INPP is an infrastructure fund with holding in over 50 assets, managed by Amber Infrastructure.

Given the guaranteed stream of availability payments and absence of construction risk, the sponsor could have pushed for lower pricing and higher leverage. But because Robin Rigg is the first OFTO project, Transmission Capital Partners favoured a conservative approach.

Transmission Capital Partners completed the financial and commercial structure in December, but before it reached financial close Ofgem had to complete its required section 8A market consultation. This process evaluated any changes to the projects structure that had occurred since the tender, and took around eight weeks.

Transmission Capital expects to close on its next two OFTO projects, Barrow and Gunfleet Sands, by the middle of 2011. The same bank club is place for the next two OFTOs, which will feature a similar financial structure. The section 8A consultation is yet to begin for these two deals, however, which means that financial close is at least two months away. Transmission Capitals fourth OFTO contract, Ormonde, will be even further away, as construction on that line is not set to be complete until May.

The second round of OFTO tenders is already underway and involves slightly larger projects that have yet to be completed. Round 2a comprises Gwynt y Mor (576MW), Lincs (250MW) and London Array Phase 1 (630MW), and preferred bidders will be selected in July. Developers will need to expand the bank club size for these larger tenders, and seek support from the European Investment Bank.

Round 2b is scheduled for 2012 and Ofgem hopes to establish what it calls the enduring regime of OFTO tenders in 2013. Under that regime, offshore wind developers could decide whether to build transmission and then transfer it to an OFTO operator, or let the OFTO operator also build the transmission.

TC Robin Rigg OFTO

Status: Financial close 1 March 2011

Size: £78.5 million

Location: 12km off the UKs Cumbrian Coast

Description: Acquisition and 20-year operation rights of the transmission links from Robin Rigg offshore wind farm to the UK mainland

Sponsor: Transmission Capital Partners (Transmission Capital, Amber Infrastructure and International Public Partnerships)

Lenders: Lloyds, Barclays, and BNP Paribas

Lender legal: Allen & Overy

Sponsor legal: Linklaters

Sponsor insurance: Aon

Lender insurance: JLT

Technical adviser: Parsons Brinckerhoff

Model auditor: PKF

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