

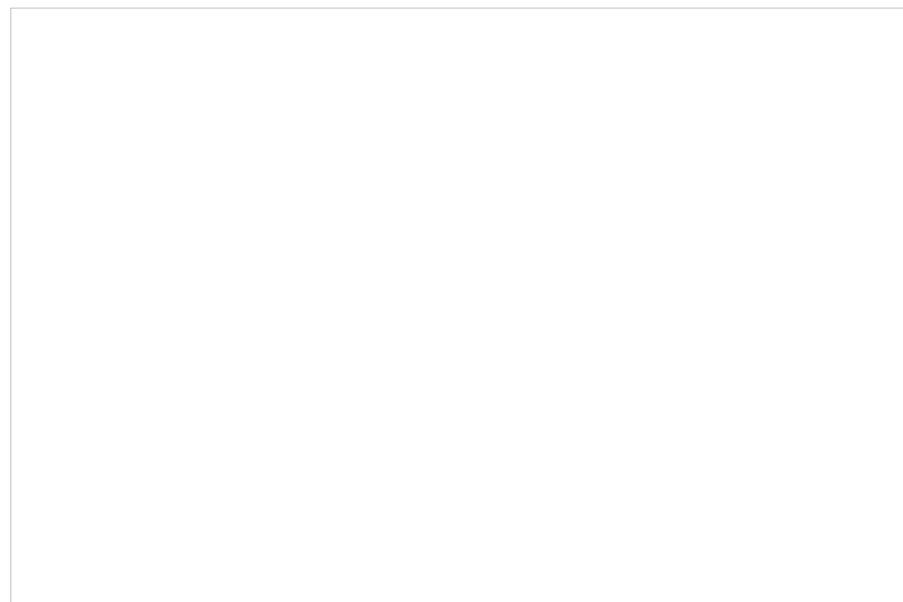
Germany's project lenders more ready for nuclear phase-out than developers

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The German federal governments decision in August 2011 to shut down eight of its nuclear reactors permanently, and another nine by 2022, attracted criticism as panicked and poorly thought-out. The decision was a direct consequence of the Fukushima nuclear disaster in Japan, though Germany has long been ambivalent about its use of nuclear power. As more than one observer has noted, imported power, much of it from coal or nuclear, replaced the 8GW of immediate retirements.

Germanys willingness to embrace wind and solar technologies early and with enthusiasm has given it a substantial base of developers and equipment suppliers. There is a widespread assumption that renewables will be able to replace the retiring nuclear fleet, though no country has ever replaced such a large baseload fleet (roughly 20GW) in such a short time-frame. Germany wants renewables to account for 35% of generation by 2020, and 80% by 2050.

Germany's target generation mix



Source: Pöyry

In one sense, at least, the decision was well-timed. German power finance is in comparatively rude health. Germanys landesbanks, many of which had to be bailed out or restructured from 2008 on, have been told to concentrate on core clients and politically-palatable sectors in home markets. Many of them acquired substantial project finance capabilities in overseas markets and are looking to retain them even as they cover a smaller geographical area.

Germanys offshore wind market, a slow developer, is now building up steam, and looks set to rival that of the UK, on the back of strong local expertise and a slightly more transparent incentives regime. Germanys solar and onshore wind developers, confronting drastic tariff cuts in foreign markets and increasingly wobbly sovereign credits in some markets, may also turn back to the domestic market with renewed focus.

For independent power developers, both conventional and renewable, there are signs that municipal utilities, or stadtwerke, may offer opportunities that large private players such as RWE and E.ON do not. Consortiums of municipals such as Trianel and Tobi have emerged as desirable sponsors, and the larger municipals can be the anchor for project financings in their own right, though they often require additional outside equity to close the largest financings.

Bremen and the new German dynamic

The Eu337 million (\$464 million) debt financing for the 445MW Bremen combined-cycle gas turbine plan indicates how competitive German lenders will be in support of domestic conventional power projects. Landesbank Baden-Württemberg, Landesbank Bremen and KfW-IPEX were coordinators on the Eu300 million in senior commercial debt, with Dekabank, BayernLB, Helaba and Commerzbank rounding out the lead arranger group. The European Investment Bank took out Eu200 million of the banks commitments, though it does so with counter-guarantees from those banks.

The sponsors of the Eu445 million Bremen project are Stadtwerke Bremen, with 57.4%, Tobi, which brings together municipal utilities from Lower Saxony and North Rhine-Westphalia, with 15.5%, Frankfurt-based utility Mainova, with 25.1%, and Deutsche Bahn, with 2%. The sponsors financial adviser on the 18-year debt package was WestLB, which, either as a tribute to its advisory skills or thanks to its restructuring issues, did not participate. Nor, despite some interest, did any non-German lenders.

Combined-cycle plants are likely to play a role in replacing the nuclear fleet, though the pricing signals will not encourage new merchant capacity. According to Fleur Greetham, a principal consultant at Pöyry, spark spreads [the gap between power prices and fuel prices] have been falling over the last few years, with negative spreads being reported on a regular basis since May 2010, and we don't see this situation picking up much in the short-term.

But while coal is still an important part of the German generation mix, and even provided a Eu1.3 billion debt financing in 2008 for Trianel's 750MW Lünen project, it faces more obstacles. The carbon trading regime and popular opposition make it harder to bring greenfield plants to market. And as Greetham notes, problems with the T24 steel alloy used in newer high-efficiency boilers have delayed construction on new coal capacity.

But the coal lobby, not to mention incumbent utilities, remain potent obstacles to new CCGT development, as Mathew Brett, chief executive for Europe at developer Advanced Power, notes. Advanced developed a coal project the 900MW Dorpen plant but exited in 2007, before opposition to new coal capacity increased in pitch. Without strong price signals, including such measures as a mooted capacity market, new gas development will be patchy.

Advanced is still pursuing two CCGT plants in Germany. Its 424MW Bocholt plant, a 50/50 joint venture with Siemens, is fully permitted, in part thanks to its willingness to work around obstructive transmission providers and bury its cabling. But the sponsors still need to find offtakers and equity providers before closing. As Brett notes, finding a window in which offtakers, sponsors and lenders are all comfortable is difficult, and the window only opens sporadically. Advanced's 1,200MW Wustermark CCGT plant is at an earlier stage, and is trying to win around popular opinion.

The trials of conventional power developers point to the gulf between the deregulated market in their sector, and difficulties of working around incumbents. Renewables developers, which benefit from feed-in tariffs, suffer from fewer obstacles. In newer sub-sectors with large capital requirements, foreign lenders can make a meaningful contribution.

Offshore with Global Tech, Meerwind and Borkum

The German offshore market has witnessed three closings in 2011 for the 200MW Borkum West II, 400MW Global Tech 1, and 288MW Meerwind projects. The UK market, until recently the busiest, features three deals, Gunfleet Sands, Lincs and London Array, that have produced more heartache than fee income for lenders to date.

The German deals have also featured a creditably diverse group of lenders. The small proportion (about Eu80 million) of the Eu550 million in debt for Borkum that did not come from the European Investment Bank (EIB) and the State Bank of North Rhine-Westphalia came from Dexia, Rabobank, KfW and UniCredit, as mandated lead arrangers; ASN Bank, SEB, Deutsche Bank, Helaba and NIBC as arranger.

The commercial lending group for the Eu1 billion Global Tech 1 debt comprised Dexia, KfW, Nord/LB and SG as initial mandated leads, BTMU, DekaBank, DnB Nor, HSH, ING, Natixis, Rabobank, Sabadell, Santander and SEB as mandated leads, ASN as lead arranger and NIBC. The EIB was again a large component of the financing, providing a Eu100 million loan direct, and Eu400 million with a counter guarantee. Global Tech also marked the debut of the KfW offshore wind lending programme, with KfW providing a Eu280 million loan.

Borkums sponsor was Trianel, the established stadwerke consortium, which was able to provide substantial completion support to lenders. Global Tech had greater challenges to overcome, including an initial commercial structure that would not be acceptable to lenders, and a lack of firm turbine supply arrangements.

A comprehensive turbine supply arrangement with Areva dealt with the last issue. The project still had to cope with limited lender appetite. According to Global Tech Ones in-house legal adviser Silvia Pestke, the project needed to attract roughly 25 of the 20 to 30 banks active in the sector, meaning big tickets from the EIB and KfW were essential to cope with any weakness. The sponsors, Stadtwerke München, HEAG Südthessische Energie, EGL, Esportes Offshore Beteiligungs, Windreich, GTU and Norderland Projekt, also agreed to provide deferred (essentially contingent) equity to cover potential cost overruns.

But the crucial support for lenders economics came from the EEG Stauchungsmodell, or optimal compression model, embodied in an amendment to Germanys renewable energy act. This allows for the incentives due to the project to be provided over a shorter period of time early in the life of the debt, increasing lender comfort and therefore debt capacity. The willingness of Germany to countenance such tweaks is one reason why it may be more willing and able to support replacements for the nuclear fleet than the sceptics have guessed.

Meerwind, the most recent closing, has attracted the most attention because of the presence of Blackstone as sponsor. The financing was also significant because Eu385 million of the projects Eu822 million in debt came uncovered from BTMU (documentation), Commerzbank, Dexia, KfW-IPEX (technical and facility agent), Santander (insurance), Siemens and Lloyds. KfW, again under the offshore programme, provided another Eu250 million direct, while EKF covered the rest of the debt total, with the EIB conspicuous by its absence.

Blackstone has another offshore wind financing in the works the Eu1.3 billion 64-turbine Nördlicher Grund project, for which it acquired the permits around the same time as close on Meerwind, and plans to start construction in 2013. Wpd group has a debt financing for the 288MW Eu1.2 billion (\$1.73 billion) Butendiek offshore wind nearer market, with UniCredit, KfW and Bremer Landesbank as potential arrangers.

Funding al fresco

In mid-September, as *Project Finance* held its first German Power and Renewables Finance Forum in Berlin, lenders were enthusiastic about the German market. Sponsors complained that project debt for offshore deals was so expensive that they would only consider it when a project was too large to be self-financed, but this pricing stickiness (Meerwinds initial margin was roughly 300bp over Libor) means that any spike in funding costs will eat up returns on offshore much less quickly.

But as the eurozones woes drag out, and panics periodically hit its banks, lenders may look back on 2011 as a brief respite from the series of challenges that have affected their ability to provide long-dated project debt since late 2007. Global Tech Ones Pestke notes that its deal attracted 16 lenders willing to write Eu30-50 million tickets, a respectable haul for many sponsors, but one that still required the EIB and KfW to write large tickets.

In the current funding environment, sponsors look to the ever-nascent project bond market for some relief. There is little cause for confidence, especially as the last use of capital markets in German wind the Breeze transactions was not kind to investors. Breeze 2, a Eu470 million securitisation of a wind portfolio in Germany and France, has been downgraded several times in the face of underperforming wind levels and high operating expenses.

Offshore would be a particularly useful target for institutions cash, and several public funds have made equity or subordinated debt investments in Danish and Belgian projects, with a subordinated loan likely to be part of Typhoon

Capitals Project Genesis in the Netherlands. Ted Capuano, a director at UniCredit, suggests it may be possible to combine long bonds with some short-dated bank debt to mitigate some construction and negative carry risk on bond deals. Construction risk dominates offshores credit profile, and single lump-sum, date-certain engineering, procurement and construction contracts are not common in offshore.

One potential source of funding is institutional debt covered by export credit agencies, which have closed several deals for solar photovoltaic developments in recent months. Wind, particularly offshore, lends itself to shorter tenors, which is why Danish institution PensionDanmarks commitment to fund DKr10 billion (\$1.8 billion) in debt covered by Danish export credit agency EKF on the recent Jadraas project in Sweden could have important implications for the development of German offshore.

The PensionDanmark product is designed to mirror commercial bank terms and match bank funding 1:1. It is designed to supplement, rather than go beyond, bank appetite, though it bodes well for other institutions to form similar ventures with export and development lenders. Turbine salesmen at Vestas and Siemens, both of which produce turbines in Denmark, are probably updating their pitch books accordingly. ■

WindMW

Status: Closed August 2011

Size: Eu1.2 billion

Location: 50 km off the German coast

Description: 80 3.6MW Siemens turbines

Sponsors: Windland Energieerzeugungs, Blackstone Capital Partners VI, and Blackstone Energy Partners

Debt: Eu882 million

Arrangers: Commerzbank, KfW IPEX-Bank, Bank of Tokyo-Mitsubishi, Dexia, Lloyds Banking Group, Santander and Siemens Bank, along with EKF (covered tranche) and KfW-Bankengruppe (offshore wind programme)

Sponsor financial adviser: Green Giraffe Energy Bankers, KfW-IPEX and Dexia

Sponsor insurance adviser: NWA

Sponsor tax adviser: Ernst & Young

Sponsor legal adviser: Gleiss Lutz

Lender legal and tax adviser: Watson, Farley & Williams

Lender technical: Sgurr Energy

Lender model audit: PKF

Lender insurance adviser: JLT

Power market consultant: IPA

Gemeinschaftskraftwerk Bremen

Status: Signed 30 June 2011

Size: Eu445 million

Location: Bremen

Description: 445MW combined cycle gas-fired plant

Sponsors: Stadtwerke Bremen (57.4%), Mainova (25.1%), Tobi (15.5%), and Deutsche Bahn (2%)

Debt: Eu337 million

Arrangers: Landesbank Baden-Wurttemberg, Landesbank Bremen, KfW-IPEX, Dekabank, BayernLB, Helaba and Commerzbank

Provider: EIB

Financial adviser: WestLB

Lender legal counsel: Norton Rose

Sponsor legal adviser: Clifford Chance

Insurance consultant: Willis

Market and technology consultant: Pöyry

Global Tech 1

Status: Signed August 2011

Size: Eu1.6 billion

Location: 110km offshore German coast

Description: 80 5MW Arena turbines

Sponsors: Stadtwerke München (24.9%), HEAG Südthessische Energie (24.9%), EGL (24.1%), Esportes Offshore Beteiligungs (10%), Windreich (8.05%), GTU (2%) and Norderland Projekt (0.05%)

Debt: Eu1 billion

Sponsor wind assessment: DEWI, Wind-Consult, EWC Weather

Sponsor technical: Germanischer Lloyd, SGS

Sponsor legal: Gleiss Lutz; CMS Hasche Sigle

Sponsor insurance: Marsh

Sponsor financial adviser: BBSC Corporate Finance

Sponsor tax and accounting: Ebner Stolz Mönning Bachem

Lender legal: Watson Farley & Williams

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