

European Transmission Deal of the Year 2011: Robin Rigg

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Transmission Capital Partners closed the financing for the Robin Rigg offshore transmission project (OFTO) on 1 March 2011. This was the first OFTO to finance, following the introduction of the regime by the UK energy regulator Ofgem in 2009. The regime was designed to diversify the number of investors in the offshore wind sector in support of the UK governments renewable energy drive.

Although it was structured a little conservatively, with a debt-to-equity ratio of about 85:15 and a tight-knit club of three banks providing the funding, the deal served as a landmark because, unlike under other energy regimes, there is no regulatory review during the 20-year initial term of its licence. It influenced later deals from the same sponsor group directly.

Of the nine first-round projects Ofgem selected Transmission Capital Partners as preferred bidder on three in August 2010. The two other OFTO deals Gunfleet Sands and Barrow which closed in July and September, respectively, were essentially a repeat of Transmission Capital Partners first OFTO financing.

We submitted the tenders for all the OFTOs at the same time, explains Gavin Tait, investment director at Amber Infrastructure. We very simply asked that those banks that had delivered for us on the first deal follow the reliable precedent set, so while the assets looked slightly different in some aspects, the capital structure and the bank group remained fundamentally the same.

The project entails the 20-year ownership and operation of a transmission cable connecting the 180MW Robin Rigg offshore farm, owned by E.ON, 12km to 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 consortium had to pay a £65.5 million for acquiring the asset, an amount set by Ofgem and not subject to competitive bidding. The fee acknowledges that the consortium is acquiring an already operational asset.

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 partly explains why the sponsors were able to go from preferred bidder to close in a space of 6 months. The project debt and equity fund the purchase price and a debt service reserve, and pay transaction expenses.

The project has no construction risk, since the transmission line has been operational since 2010, which helped to push down the cost of funding. There is also no demand-based risk since the project company is paid purely by the availability of the transmission assets. The maximum performance-related reduction that can incur in any single year is 10%.

A club of three banks Barclays, BNP Paribas and Lloyds provided £68.1 million (\$107 million) in non-recourse debt, which includes standby facilities, with contributions split equally between the three. Helaba and KfW joined in September after a syndication process.

The debt breaks down into a £66.1 million project facility and a £2 million working capital facility. INPP is providing £12.4

million, or 100% of the equity for the project.

The tenor on the debt is 19 years, leaving a one-year tail before the end of the concession. The loan is fully amortising with no cash sweeps. The average margin on the debt is rumoured to be around 220bp. There are step-ups occur over the life of the loan, though they do not rise steeply enough to force a refinancing.

UK banks face restrictions on the geographical remit of their project finance activities in the wake of the financial crisis, so the opportunity to lend to a large domestic infrastructure asset prompted a lot of competition. More than 10 banks expressed interest, producing a healthy oversubscription, but the sponsors felt more comfortable settling on a smaller group of relationship banks.

Our preference as a sponsor and financial adviser is to go with a smaller, committed group of banks and develop a long-term relationship. Some other bidders went with 10 to 12, for example, but our strong preference is always to work with people and institutions who are experienced, who we have worked with before and where challenges can be overcome by working together sensibly. He adds: We obviously want to win, but the overriding aspect for our fund is that the investment is robust and delivers what it is supposed to. We would not follow if competing bidders adopt a stance of reducing a projects credit quality in order to win, for example.

According to one source close to the deal, the sponsors may look to refinance the deal at some stage, though this is something that the sponsors say they are not looking at for the time. We haven't got any plans to refinance. There is 19-year bank debt in there. There's no anticipation of refinancing. We won't preclude looking at it, but we have no plans at the moment said Tait.

Tait attributes Transmission Capitals run of success to the consortiums ability to grapple with the technical issues in the project as quickly as possible. We've been tracking these OFTO opportunities a couple of years before the bidding came out. The Transmission Capital Partners team includes a number of ex-National Grid employees, including people who ran the offshore area and who were responsible for procurement of offshore wind farms. We came at it from a position of understanding the technical issues that are required to both construct and maintain these assets.

TC Robin Rigg OFTO Ltd

STATUS: Financial close 2 March 2011

DESCRIPTION: Acquisition and 20-year operation rights of the transmission links from Robin Rigg offshore wind.

SIZE: £78.5 million

REGULATOR: Ofgem

SPONSOR: Transmission Capital Partners (Transmission Capital, Amber Infrastructure and INPP)

MLAS: Barclays (hedging bank), Lloyds (facility agent, hedging bank), BNP Paribas (hedging bank)

OTHER LENDERS: KfW, Helaba

SPONSORS LEGAL ADVISER: Linklaters

SPONSORS FINANCIAL ADVISER: Amber Infrastructure

SPONSORS INSURANCE ADVISER: Aon

LENDERS LEGAL ADVISER: Allen & Overy

LENDERS INSURANCE ADVISER: JLT

GRANTORS FINANCIAL ADVISER: Ernst & Young

TECHNICAL ADVISER: Parsons Brinckerhoff

MODEL AUDITOR: PKF

TAX ADVISER: Deloitte

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