# Dundonnell Wind Farm, Australia

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*Updated to include:*

- *Details on underwriting and syndication*
- *Details on the pace of the transaction*

Tilt Renewables' 336MW Dundonnell wind farm is the first transaction over the line following the Victorian Renewable Energy Auction Scheme (VREAS) auction in September 2018. Victoria launched VREAS to support its renewable energy targets of 25% of the state's electricity generation from renewable sources by 2020 and 40% five years later.

The government announced on 11 September (2018) the six project winners. Some two months later, Tilt Renewables had achieved financial close – the first under VREAS. But risks such as a takeover battle at the level of the sponsor Tilt, tight construction deadlines for the government support agreement, and ongoing political pressure to reveal terms remain.

Project participants highlighted the speed of execution and the government's due diligence. The government has been driving a relatively aggressive timeline. Meanwhile, it was necessary to have the project funding by the time of the VREAS bid last February (2018).

Dundonnell is anticipated – once completed by Q3 2020 - to provide annually A$40-50 million free cash flow before debt service. Post-tax cash flow per year will be about A$20-25 million.

It's helpful to track whether a project's estimated cost is shrinking like Ant Man or ballooning like Ghostbusters' Stay Puft Marshmallow Man.

Dundonnell wind's cost tracked lower during commercial and financial closings – at one point it was A$600 million and now it is estimated to be A$560 million. That is nearly a 7% reduction.

**The financing**

Tilt Renewables' financing of Dundonnell has a debt-to-equity ratio of 54:46.

Negotiations for the construction loans had mostly been completed by September (2018).

NAB and MUFG underwrote the $A300 million term debt, and it was syndicated across Australian banks, MUFG and Danish export credit agency Danmarks Eksportkredit (EKF). There are tranches with different tenors, the minimum being five years. A significant part, however, is longer term.

It is believed the syndicate banks' ticket sizes are even.

Danish export credit agency Danmarks Eksportkredit (EKF) has joined the fray by committing an A$100 million bank guarantee. EKF's participation shouldn't be a surprise since Danish turbine manufacturer Vestas is the main supplier for the project.

Tilt Renewables is financing the remaining A$260 million as equity. The company has agreements with Citigroup and Forsyth Barr to underwrite the equity offering, scheduled for early 2019.

**Battle of wills – a financial close amid a takeover battle**

But EKF is a late arrival to the party – at least publicly. Part of the reason to further de-risk the project was a takeover battle with the joint venture between Infratil and Mercury. Infratil-Mercury confirmed on 15 August (2018) its intention to takeover Tilt Renewables.

The takeover JV has engaged Tilt Renewables in a battle of wills ever since, as it has extended its offer deadlines throughout the autumn, picking up shareholders along the way – the latest deadline being today (30 November). The JV refuses to up its offer.

Tilt Renewables' board of independent directors have repeatedly advised shareholders not to accept the JV's cash takeover offer of NZ$2.30 per share on the opinion that the valuation is "inadequate" and "not fair".

Independent consultant Northington Partners valued Tilt Renewables, as of 17 September (2018), between NZ$2.56 and NZ$3.01 per share, with a mid-price of NZ$2.79. Tilt Renewables closed at NZ$2.31 per share today.

In the most recent exchange this week, the Infratil-Mercury JV announced that it had reached 85% acceptances, meaning it was 5% shy of securing 90% of shareholders to acquire compulsorily the remaining shares outstanding, according to New Zealand's takeover code.

The focus of the JV's pitch has now shifted to small shareholders.

Tilt Renewables' equity raise will be an accelerated renounceable entitlement offer (AREO), meaning that it is a pro-rata share issue: rights of shareholders not participating are auctioned to institutional and high-net-worth investors.

"Ordinarily, that sort of share issue can work well for non-participating shareholders, but this isn't going to be an ordinary situation," said Infratil CEO and director Marko Bogoievski in a statement this week. "Small shareholders should be wary, as there aren't likely to be many bidders for their rights if they don't participate in the issue, except perhaps a small number of larger institutional shareholders."

Bogoievski continued: "There's a very real risk that the shares will be issued at a significant discount to the share price, and that small shareholders will receive little or no value for their rights. If that happens, those shareholders will have the value of their shareholding diluted."

Chairperson of Tilt Renewables' independent directors Fiona Oliver shot back a few hours later: "An objective of structuring the proposed issue as we intend to is to target an outcome where shareholders who do not participate, or do not fully participate, are not financially worse off."

And, returning to the main sticking point of the JV's attempt to take Tilt Renewables private, Oliver noted: "This risk [of shareholders being financially worse] needs to be weighed against the very low price being offered by the JV. We do not believe that a preference to not participate in the capital raising should be grounds to accept the offer price that is so far from being fair."

The takeover required the financing package to maintain flexibility around the equity raising's timing. Shareholders, including Infratil and Mercury, are generally supportive of Dundonnell and expect it to increase Tilt's long-term valuation. Thus, the Victorian government's offtake auction process was the driving force behind the transaction's tempo.

As the deadline ticks down, it's a nail-biter.

**The offtake agreements**

Tilt Renewable has agreements for 87% of Dundonnell’s production.

Government-owned Snowy Hydro will off-take half the Dundonnell’s production for a minimum of 15 years.

The company also has a 15-year support agreement with Victoria state through the VREAS, which relates to 37% of production, or 29 out of 80 turbines. Revenue will be an annual fixed base payment plus a monthly variable contract for difference payment. Unlike the Australian Capital Territory (ACT) government, which announced in 2016 the prices of its wind and solar auctions, the Victoria government has not been so kind.

For comparison, the ACT government awarded in 2016 Neoen, Megawatt Capital and John Laing a 20-year feed-in tariff for an additional 100MW in its second reverse auction at a price of A$77 ($55) per MWh. The government had awarded the sponsors a 20-year feed-in tariff at A$92 per MWh for the first 100MW phase.

At this rate, a range of A$60-68 per MWh for Dundonnell would not be unfathomable. Even that might be too high. Goldwind Australia acquired last year (2017) the 471MW Stockyard Hill wind farm from Australian renewable energy firm Origin for A$81.6 million, pricing the asset at below A$60 per MWh, close to the state’s cost of coal-fired power.

Negotiations over the transmission line and connection assets also complicated the deal. Working with AusNet Services, Tilt Renewables will have a shared transmission line solution used by other operators, thereby avoiding duplicate infrastructure. Some 15km of the total 38km transmission line will be dual circuit transmission line, allowing future renewable energy projects in the area to connect. The line and connection assets are BOO.

**Victoria's tight construction timeline**

Dundonnell’s construction – backed by the participation of 12 landholders – is expected to start early next year (2019). Operations are anticipated for Q3 2020, according to the aggressive Victoria government timeline.

Aarhus, Denmark-based Vestas is Dundonnell’s EPC, wind turbine supplier and O&M contractor. The contract includes the electrical balance of plant infrastructure and at least a 15-year service solution with condition monitoring.

Dundonnell will have 80 Vestas V150-4.2MW turbines with a 114-meter hub height tower design, the largest in its product suite, across 4,500ha. Local Victorian suppliers will partially source the towers, according to Vestas. The Danish company in October 2018 revealed it is building a new manufacturing facility in Geelong, on the back of orders for Dundonnell and Berrybank in the country.

Rystad Energy estimates that a 180MW wind farm takes about 20 months to construct, or 9MW per month. To reach the government’s nearly 124MW offtake will take 14 months or 37 months for the entire 336MW farm. Fourteen months after January 2019 does not leave much slack to complete the government’s portion by September 2020.

**The sponsor**

Tilt Renewables owns 636MW of wind: 440MW in Australia and 196MW in New Zealand, meaning Dundonnell is more than 50% of the company’s entire portfolio. Dundonnell’s financing package sits alongside Tilt Renewables' existing corporate financing for their portfolio of wind farms.

Tilt Renewables owed banks A$641 million ($82 million) and had unutilized committed funding lines of A$15 million as of 30 September. Its debt facilities are a combination of rolling and longer-dated loans. “With Dundonnell and rest of the portfolio being highly contracted we are well placed to manage refinancing with existing banks group, but also have the flexibility to look at continued growth in the portfolio,” said a Tilt Renewables spokesperson.

The company does not tend to divest project assets. It is a long-term holder, shown by the continued ownership of Blayney, Tararua I and Crookwell wind farms commissioned in 1998, 1999 and 2000, respectively.

**The VREAS victors**

The three wind farms and three solar farms of the VREAS are:

- Acciona's 158MW Mortlake South Wind Farm
- Canadian Solar's 122MW Carwarp Solar Farm
- Enel Green Power Australia's 34MW Cohuna Solar Farm
- Fotowatio Renewable Ventures' 99MW Winton Solar Farm
- Global Power Generation's 180MW Berrybank Wind Farm
- Tilt Renewables's 336MW Dundonnell Wind Farm

At a glance that list might not seem peculiar. But consider that the government's offtake is 674MW of the 929MW total. Digging deeper, energy consultancy Rystad Energy highlights that you'd not expect solar to have such a large share of the contracted amount (31%), if commercial factors were the only ones being considered.

To maintain energy diversification, the government had vowed that at least 100MW of solar would be in this first batch of winners. The actual figure is more than double, which might be surprising with wind's better economics over solar, especially in Victoria.

Consultants at Rystad Energy indicate that "with low breakeven prices for wind, it's likely the successful wind projects bid into the auction with very low, or perhaps zero, financial support requirements under most probable future price scenarios". It added: "Low-breakeven, low-support requirement wind farms provide greater headroom for the government to contract more expensive solar projects."

**Fair dinkum energy policy, anyone?**

The regulatory and political risk is relatively low. Politically, Labor just picked up a net gain of four seats in Victoria's legislative assembly at the elections on 24 November. It now holds 51 seats in the 88-seat body, while Liberal dropped 13 net seats, reaching 17.

The short to medium-term political risk concerns information disclosure. There is public pressure to disclose more information about the auction including prices. Right now, it's just murmurs but those could crescendo into a roar.

**Advisers**

Legal advisers on the transaction are:

- Herbert Smith Freehills - lenders' counsel and project development counsel for Tilt Renewables
- Gilbert + Tobin – borrower's counsel

Legal advisers which assisted Victoria government in the selection of the VREAS auction winners include:

- Allens
- Corrs Chambers Westgarth
- MinterEllison

Advisers on the takeover offer include:

- UBS – Infratil's financial
- Buddle Findlay – Infratil's legal
- FNZC – Mercury NZ's financial
- Chapman Tripp – Mercury NZ's legal