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Fred Olsen: UK wind portfolio

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An open-end portfolio of UK wind farms - owned by Norwegian developer Fred Olsen Renewables - reached financial close in October 2008.

The £303.5 million (US$500m) transaction incorporates the refinancing of three wind projects and one new wind farm in addition to providing a structure that allows future projects to join the portfolio.

In spite of tightening credit markets, the transaction - which was the largest UK wind financing in 2008 - reached completion. Further, the deal was followed by a limited syndication in the New Year.

IJ reporter **Verity Ratcliffe** looks at the landmark transaction and considers the challenges faced in taking the deal to completion.

The portfolio

The open-end transaction includes the refinancing of three existing wind farms developed by Fred Olsen, a wholly owned subsidiary of Bonheur and Ganger Rolf, and one greenfield project. All projects are located in east Scotland [Projects Database].

The refinanced projects are:

- 62.5MW Crystal Rig I
- 64MW Paul's Hill
- 50MW Rothes

The new wind farm - which will also be the largest in the portfolio when complete - is the 138MW Crystal Rig II project.

The existing wind farms benefit from a PPA with E.ON that is set to expire in 2020-21. EDF Energy is to be Crystal Rig II's offtaker under a 7-year PPA.

The financing

The transaction debt was initially structured as follows:

- Re-financing facility (A) - £45 million - to refinance existing debt at Crystal Rig I, Paul's Hill and Rothes
- Term loan facility (B1 and B2) - £69.5 million - to replace letters of credit in Paul's Hill and Rothes original financing
- Crystal Rig II construction facility (C1 and C2) - £137 million - to finance Crystal Rig II construction
- Re-gearing facility (D) - £23 million
- Project letter of credit facility (E) - £30 million - letter of credit for Crystal Rig II
- Working capital facility (F) - £5 million
- Debt service reserve revolving facility (G) - £17 million

The £326.5 million debt was then reduced to £303.5 million following the cancellation of the re-gearing facility (£23 million) by the sponsor.

The following banks provided debt as MLAs:

- Bank of Tokyo-Mitsubishi
- BNP Paribas
- Fortis
- HSBC
- NordLB

In addition to acting as mandated lead arranger, HSBC was also financial adviser to the sponsors.

On the legal side, Allen & Overy represented the sponsors with Dundas & Wilson as Scottish Legal Counsel. Norton Rose acted on behalf of the lenders.

Garrad Hassan was technical adviser on the transaction, also supported by Finland's Poyry. JLT Risk Consulting was insurance adviser.

Pricing on the transaction was set at Libor +150bp at the pre-completion phase, which is to convert to Libor +140bp post-completion. This will then step up to Libor +195bp at a later date.

The MLAs intended to take £50 million (US$75m) each following syndication. Most of the banks participated in syndication, however a couple banks opted to hold on to their full underwritten amounts, carrying slightly more debt on their books.

Germany's IKB bought £15 million (US$22m) at syndication, having previously participated in the original financing of a couple assets included in the portfolio, while NAB took £20 million (US$30m) debt. Transfer of certificates occurred on 14 January.

Open-end portfolios - Fred Olsen and beyond

The Fred Olsen portfolio has been structured to allow new assets to be brought into the portfolio in the future. This flexibility can accommodate wind farms with different PPA types and levels of contracted offtake.

The Fred Olsen portfolio, like several other similar transactions, was initiated at the beginning of 2008 when credit was readily available.

The sponsor launched the scheme to MLAs in April and proceeded with negotiations with banks throughout the summer. Financial turbulence threatened to derail the portfolio at this stage. The banks reacted and pushed for a refinancing option to be added to the financing at year 12. The sponsor accepted this and financial close was reached on 31 October 2008.

The sponsor's flexibility to accept this change shortly before financial close, together with the heavy-weight profile of the transaction's lenders proved crucial and ultimately took the deal across the finishing line.

Other open-ended portfolios fared less well in 2008 - notably the Zephyr collection of UK wind farms. The transaction has been shelved following months of attempted negotiations with banks. MLA commitments remained far from forthcoming despite proposals to adjust the structure, pricing and tenor of the debt. Parties on the transaction may well revive their endeavours in 2009, should credit markets offer better opportunities.

However, as credit markets continue to show few signs of loosening, an open-end wind portfolio transaction of Fred Olsen dimensions is far from likely any time soon.

The project at a glance

Transaction Name	Fred Olsen Wind Portfolio

Location	Scotland, UK
Description	Norwegian developer Fred Olsen Renewables' open-end portfolio financing. It includes three existing wind farms owned by Fred Olsen and one greenfield project.
Sponsors	Fred Olsen Wind Holdings
PPA	Existing wind farms PPA = E.ON Crystal Rig II PPA = EDF Energy
Total senior debt	£303.5 million (US$500m)
Senior debt breakdown	• Re-financing facility (A) - £45 million - to refinance existing debt at Crystal Rig I, Paul's Hill and Rothes • Term loan facility (B1 and B2) - £69.5 million - to replace letters of credit in Paul's Hill and Rothes original financing • Crystal Rig II construction facility (C1 and C2) - £137 million - to finance Crystal Rig II construction • Project letter of credit facility (E) - £30 million - letter of credit for Crystal Rig II • Working capital facility (F) - £5 million • Debt service reserve revolving facility (G) - £17 million
Senior debt pricing	pre-completion = Libor +150bp post-completion = Libor +140bp later = Libor +195bp
Mandated lead arrangers	• Bank of Tokyo-Mitsubishi • BNP Paribas • Fortis • HSBC • NordLB
Legal Adviser to sponsor	Allen & Overy Dundas & Wilson
Legal adviser to banks	Norton Rose
Date of financial close	31 October 2008