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Open Grid Europe, Germany - IJ Awards 2013 Energy acquisition of the year

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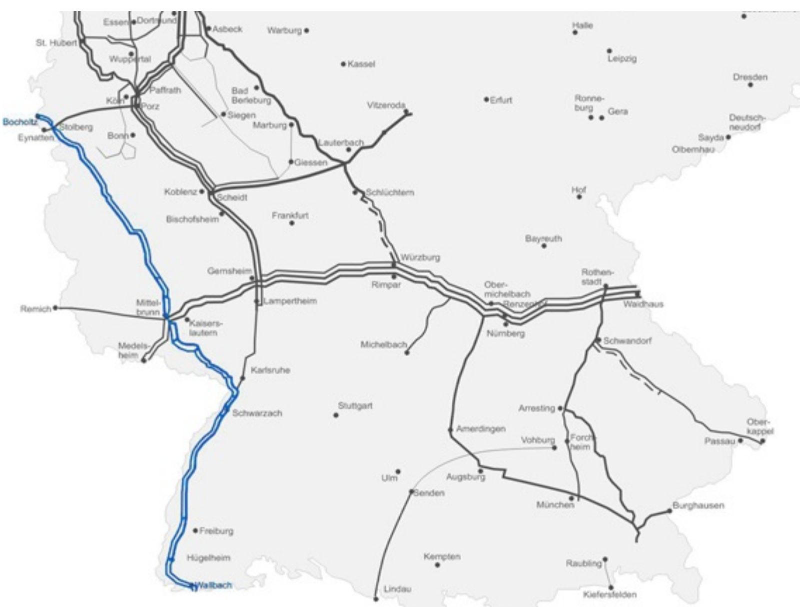
The acquisition of the €3.2 billion (US$4.1bn) Open Grid Europe gas transmission network was without a doubt one of the key project finance deals of 2012. The size and complexity of the acquisition – as well as its game-changing nature, seeing major institutional investors directly participate alongside funds – means this deal is likely to be talked about for several years to come, setting a blueprint for utility acquisitions.

The asset

Open Grid Europe is the owner and operator of the longest regulated supra-regional gas transmission network in Germany, with approximately 12,000km of gas pipeline and 27 compressor stations. OGE transports almost 62.5 billion cubic metres of natural gas annually, approximately 70 per cent of Germany's total national shipping volume, and serves 450 national and international customers. OGE's pipeline network spans the entire country and is of vital importance to pan-European gas flows as well as domestic transmission, with OGE's compressor station in Waidhaus on the German-Czech border being one of the largest European inlets for natural gas from Russia.

The Essen-based company was established as an independent operator, fully unbundled from its parent company, in order to comply with EU requirements in 2010.

Open Grid is currently investing around €400 million (US$530m) in expanding its distribution network. The expansion includes a 67km pipeline between Hesse and Bavaria and a 72km pipeline within Bavaria. The latter, valued at €110 million (US$145.7m), is being constructed as a joint venture with GRTgaz.



The competition

A Macquarie European Infrastructure Fund 4 (MEIF4)-led consortium acquired Open Grid Europe from E.On. The consortium, assuming 100 per cent ownership of OGE, also comprised Infinity Investments, British Columbia Investment Management Corporation and MEAG MUNICH ERGO Asset Management. The business was acquired for €3.2 billion, which included €1.1 billion equity.

The Macquarie-led group beat off bids from three other consortia of investors:

- A consortium of GRTGaz (a subsidiary of Belgium's GDF SUEZ), CNP Assurances (France) and IFM Australian Infrastructure Fund (Australia)
- A consortium of Fluxys (Belgium) and Global Infrastructure Partners (UK)
- A consortium of Allianz (Germany), Canadian Pension Plan (Canada) and Gasunie (Netherlands)

The financing

The facility is structured across four tranches of three and five year loans provided by a group of international banks, which are lending on a pro-rata basis across the tranches. Financial close was reached on 23 July 2012.

The first debt tranche is a €1.1 billion bridge-to-bond with a three-year tenor. Pricing opens at 175bp over Euribor and steps up to 175bp after the first year. It then steps up by 25bp every six months (or three 25bp increases) with a 50bp step-up in the final six-month period. The pricing reflects the lenders’ desire to encourage the sponsor to proceed quickly to bond refinancing of this tranche, according to one banking source.

The second tranche is a €1.1 billion, five-year loan priced at 175bp over Euribor and stepping up by 25bp every year except the final year during which there is a step up of 75bp.

The third tranche is a €450 million, five-year revolver intended to provide additional capex for the development of Open Grid Europe.

The fourth tranche is also a five-year revolver valued at €100 million.

The deal has been arranged by nine banks acting as Mandated Lead Arrangers (MLAs) and bookrunners:

- Export Development Canada
- RBC
- Scotiabank
- BNP Paribas
- Credit Agricole
- Commerzbank
- ING
- Société Générale
- UniCredit

Three banks joined the deal on an early-bird basis as MLAs:

- CIBC
- HSH Nordbank
- SEB

Why it counts

Historically, German infrastructure networks have been owned by large utility companies. The recent unbundling initiatives to split the energy value changes across the European Union have resulted in the divestment of these networks. The divestment of OGE was by far the largest of these to date and represented a shift from utility ownership to financial investor ownership. Macquarie Infrastructure and Real Assets (MIRA), the manager of MEIF4 and transaction lead, has pioneered the model of infrastructure investors having deep operational experience. This operational experience allowed the MEIF4-led consortium to proceed to the final round of bidding without a utility being part of the consortium.

This represents a continued shift in the mindset of regulators in continental Europe, allowing a financial investor to own and manage these assets. In building a consortium with co-investors, MIRA helped develop a structure for large institutional investors to make direct investments alongside a fund investment. Many large institutional investors are now looking to make direct investments into core infrastructure assets to put significant pools of capital to work. In the words of Macquarie, "this transaction represented a development of the wider infrastructure market, which is expected to prevail in future deals."

Advisers

Financial advisers to the consortium were Macquarie Capital and Royal Bank of Canada.