

Westermost Rough, equity refinancing

Elizabeth Kemble

26/08/2014

The UK Green Investment Bank (GIB) and Marubeni closed a refinancing of their 50% equity investment into the £1 billion (\$1.6 billion) Westermost Rough offshore wind project. This was the first time a holding company (holdco) had raised project debt during the construction phase of a UK offshore wind project. It is also the first ever time that the Japan Bank for International Cooperation (JBIC) has acted as lender on an offshore wind farm anywhere in the world.

Marubeni and GIB have demonstrated that it is possible to raise debt financing during the construction of this type of asset. Lender wariness of construction risk has made them nervous about providing financing to holding companies, rather than operating companies, for wind farms.

The deal also gives developers confidence that the large wind projects lined up for the UK's procurement rounds 2.5 and three can also attract financing during construction.

JBIC enters offshore

JBIC has written the largest ticket, at £172.5 million, on the £370 million refinancing, even though it has never invested in the sector before. Developers and investors hope that its involvement on Westermost Rough, which is located north of the Humber Estuary, off the Yorkshire coast, will be the first of many investments in UK offshore wind assets.

Marubeni, which is becoming increasingly active in the sector, brought the Japanese export credit agency into the deal. The Japanese sponsor told *IJGlobal* that, having now invested in both operational and mid-construction assets, Marubeni now wants to become involved with a UK offshore wind project at the start of construction.

The Japanese trading house plans to take stakes in multiple offshore assets, a strategy that will help diversify risk, boost its earnings and allow it to take greater exposure and exert influence in the market. By raising debt alongside its equity stakes, it can recycle cash and invest in more assets.

Along with the UK, Marubeni is also understood to be targeting investments in offshore wind farms in Germany. In May 2012 it acquired Seajacks, the British vessel operator for offshore wind turbine installations, and in August 2013, it acquired a stake of around 25% in Irish renewables developer Mainstream.

Marubeni has been investing in the offshore wind sector since 2011, when it bought into the Gunfleet Sands wind farm, which like Westermost Rough was developed by DONG.

The deal

The Crown Estate originally awarded a lease to Total Energie to develop the Westermost Rough project in 2007. DONG stepped in to take over the contract when Total decided to no longer pursue offshore wind development in UK waters. DONG won final approval to build the wind farm in November 2011 and offshore construction began in the first half of 2014.

In April 2014 Marubeni and GIB acquired a 25% stake in the project for around £500 million through their joint venture holdco, WMR JV Investco. Within four months the two investors had reduced their exposure by refinancing some of their equity with a £370 million facility

JBIC, BTMU, Mizuho, Siemens Financial Services and Societe Generale are the lenders on the loan, which has a tenor of construction plus 15 years. All of the lenders except JBIC have taken tickets of between £40 million and £70 million, and the loan is split into two tranches - a £290 million construction tranche and an £80 million transmission tranche.

The sponsors signed on the debt in August, and financial close is scheduled to take place by the end of the third quarter. The debt is secured solely at the holdco level, though there are no project-level lenders with a senior claim on project cashflows or assets.

The holdco structure enables DONG, which holds the remaining 50% of the project, to finance its share of construction costs with balance sheet funding, as well as avoid ceding too much control over the project company to project-level lenders.

DONG used similar ownership structures for Gunfleet Sands, which saw Marubeni replacing its equity bridge with an all-Japanese bank club, on the Walney and London Array wind farms. However, all of these facilities were operational at the time that DONG's co-owners raised their debt.

Upcoming opportunities

It is understood that the upcoming Baltic II project is likely to feature a similar financial structure, with EnBW holding a majority stake in the project and financing its share using balance sheet funding, while Macquarie raises debt for its 49% stake at the holdco level.

With the size and cost of offshore wind projects increasing, developers and utility companies cannot continue to fund entire projects on their balance sheets. They are increasingly considering either financing construction at the project company level, selling down equity to third party investors while continuing to fund their share of costs at the corporate level, or selling down and consenting to project-level financings.

While utility developers' preferred method is still to avoid raising project level debt, sources close to the Westernmost Rough deal say that as transactions become larger, developers' interests will at the very least need to be more fully aligned with third party investors.

Westernmost Rough is expected to be fully commissioned in the first half of 2015, and will be the first project to use Siemens' next generation 6MW direct drive turbines. The project qualifies for 2 renewables obligation certificates (ROCs) per MWh produced and has a 15-year power purchase agreement (PPA) with DONG Energy's subsidiary, DONG Naturgas. In keeping with the EU's unbundling rules, the transmission assets associated with the project are currently being tendered by the UK's energy regulator Ofgem.

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

If you have been given this article by a subscriber, you can contact us through www.ijglobal.com/sign-in, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.