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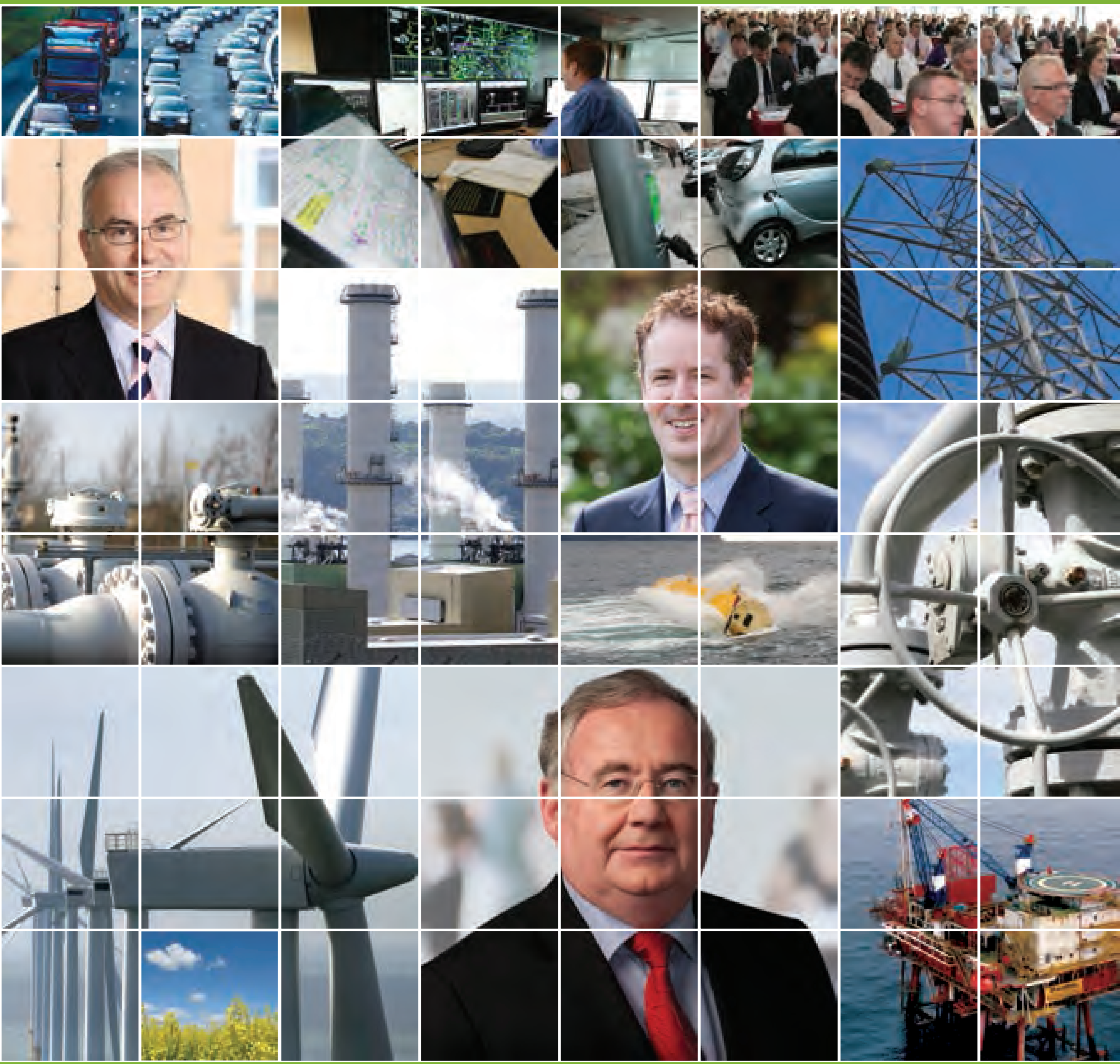
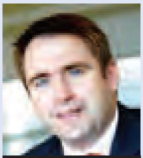
YEARBOOK 2013



The essential desktop sourcebook for the Irish energy sector

Onshore wind: the financing environment for 2013


Ross Moore


Kevin Feeney

by Ross Moore and Kevin Feeney, Partners, A&L Goodbody

A&L Goodbody's experience in 2012 was that lending activity in the onshore wind sector on the island of Ireland picked up, with a number of significant wind farm developments on which the firm advised reaching 'financial close'. Our view is that 2013 will continue to be challenging both on the 'financing' and 'project' side, but that the challenges are not insurmountable for the right project.

Among the key challenges relating to the financing of onshore wind for 2013 (which naturally are also equity issues) are:

- *A limited number of truly active lenders in the market.* This issue is coupled with increased selectiveness as to both the projects which those lenders will look at financing (generally large-scale with low risk construction and off-take counterparties and shorter term firm grid access) and the project developers who they will lend to (the current trend being to private equity backed projects or utility development projects).

- *More challenging financing terms.* Unsurprisingly base margins have increased significantly from those offered 3 to 4 years ago. This has been offset somewhat by lower Euribor rates and lower pricing for interest rate swaps. So while investor returns have certainly come under pressure, it appears not prohibitively so for those projects with lower capital costs and higher energy yields. In addition, while not without its own issues (particularly in terms of additional time required and due diligence) export credit financing may increasingly become a feature of Irish wind deals in the near future as a means of driving down project finance debt pricing.

- *Reductions in debt tenors.* Many lenders are now offering only 'soft' or 'hard' mini-perms. While these structures allow debt sizing and sculpting using a longer-term period (generally the PPA term), they require either a mandatory cash sweep or mandatory bullet repayment after a shorter period (generally 5-7 years). This is effectively a forced refinancing at borrower risk. While not all lenders are requiring mini-perm financing structures, it is a more common feature of 'club' lending deals.

- *Club lending deals.* Lenders are increasingly constrained as to the level of debt they can underwrite or provide to a project. Accordingly larger projects often require two or more lenders in a 'club' where, unlike the syndicated market, the loan is pre-marketed and entered into at origination stage with a small number of originating relationship banks with no syndication process. This requires up-front consensus and input from all club banks, with the club being only as strong as its most conservative lender. Our experience is that true relationship banks will work hard at managing other club lenders on behalf of the borrower, however agreeing commercial terms, negotiating documents with multiple lenders and managing multiple credit processes and requirements can make club deals particularly difficult and time consuming to get to financial close. On the plus side there is greater spread of underwrite risk and certainty of funding.

- *Curtailment and constraints.* The issue of constraints and curtailment of windfarms and the potential impact of these on project feasibility has been and is at the start of 2013, one of the most difficult issues in the all-island renewables market. Q1 of 2013 should see a final SEM Committee decision on the long-running issue of priority dispatch and the treatment of curtailment for renewable projects in 'tie-break' situations (indeed, somewhat unusually, the lending community has been actively involved in making submissions in this particular consultation process). Similarly anyone currently involved in developing and financing projects will know the difficulty of concluding appropriate curtailment assumptions levels for financial modelling and debt sizing purposes. While the final SEM Committee decision (as well as the scheduled firm access date for the relevant project) may make or break some future projects, the decision should bring better certainty to the market.

- *Post-2016 SEM.* Lenders certainly have an eye on post-2016 and how the EU requirement to comply with the Single European Target Market Model might impact on the structure of the SEM and project revenue structures. While grandfathering of existing renewable support schemes is likely, it is a piece of longer term regulatory uncertainty which is resulting in more stringent change of law protections in loan agreements and power purchase agreements.

A&L Goodbody's Energy and Natural Resources Group is a market-leading all-island transactional and regulatory energy practice. Ranked in the top-tier by all major legal directories, A&L Goodbody has been at the forefront of many of the significant developments in this dynamic sector and has been involved in many of the most complex, demanding and innovative transactions on the island.

Ross Moore
Partner
T: +353 1 649 2117
E: rmoore@algoodbody.com
www.algoodbody.com

Kevin Feeney
Partner
T: +353 1 649 2241
E: kfeeney@algoodbody.com
www.algoodbody.com