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 **NORTON ROSE FULBRIGHT**

# European energy infrastructure opportunities

Holdco financing – unlocking funding in the capital structure

April 2016



# Norton Rose Fulbright

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## Contents

Introduction	04
Application	05
Challenges	07
Managing risk	08
Raising finance	12
Timing	14
The lenders	15
European Union co-funding	17
Contacts	18
Global resources	19

Energy infrastructure transactions, ranging from project financing to the acquisition of energy assets, are typically easily bankable, as evidenced by the sheer number of lenders piling in to the market and the downward pressure on margins.

Energy infrastructure in Europe is attracting substantial interest not only from traditional banks, but also from institutional investors such as insurance and pensions funds, dedicated infrastructure funds and sovereign wealth funds on a global scale. A key consideration to address early on is which of these players are prepared to take which risks. There is a marked and increasing interest from international senior, sub-senior and mezzanine lenders that are looking closely at the European energy infrastructure market, willing to lend long money. The forms of financing and the tenors offered by these institutions could offer very attractive and secure long-term debt to sponsors, project promoters and developers. In addition, the current market is not segmented as it used to be. It is dynamic in the sense that structures contain financing features that were typically seen only in project finance, acquisition finance or asset finance, respectively. It is important to structure the financing so as to maximise flexibility.

## Introduction

Holdco financing is currently used and discussed in a variety of contexts as if it were something new. The concept, however, is not new. Before the credit crunch in 2007, which preceded the global financial crisis, neither PIK financing at a deeply structurally subordinated level nor ‘covenant lite’ features were unusual in leveraged finance transactions. It is now back, but with a different application and a different name.

The concept is quite straight-forward in its pure form. Rather than lending to the operating company or at the asset level, lenders are providing debt at a higher level in a structure. The proceeds of the loan can be utilised to refinance debt of existing project finance banks lower down in the structure, recycle equity investments, fund acquisitions, finance operations or a combination thereof. Holdco financing is close to corporate debt but with more risk, relying on guaranteed/regulated cash flow, allowing the sponsor to replace expensive, locked in equity with cheaper, often long-term, debt.

A holdco borrower has no operations and therefore no independent cash flow. Holdco lenders are not directly secured by the underlying assets but depend on (a share of) operational cash flow being distributed up the structure to the sponsor, the holdco lenders shaving such distributions and in some instances blocking them. All debt service is thus dependent on distributions coming up the structure. This affects non-payment default mechanisms, equity cure provisions and account structures and drives capitalisation of interest.

It is therefore key to understand that the lenders’ recourse is not only limited *upwards* in the structure, in that there is no parent guarantee or other comfort, but it is also limited *downwards* in the structure, so that the typical holdco financing security package is limited to the shares in the borrower and its bank accounts.

Norton Rose Fulbright has extensive experience advising clients on all aspects of energy infrastructure projects across Europe. We would welcome the opportunity to discuss this with you in more detail.

### **Tomas Gärdfors**

Partner

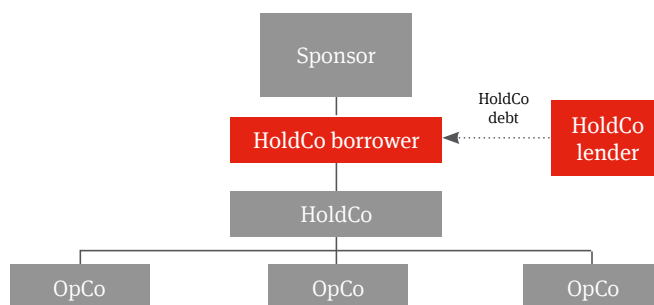
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## Application

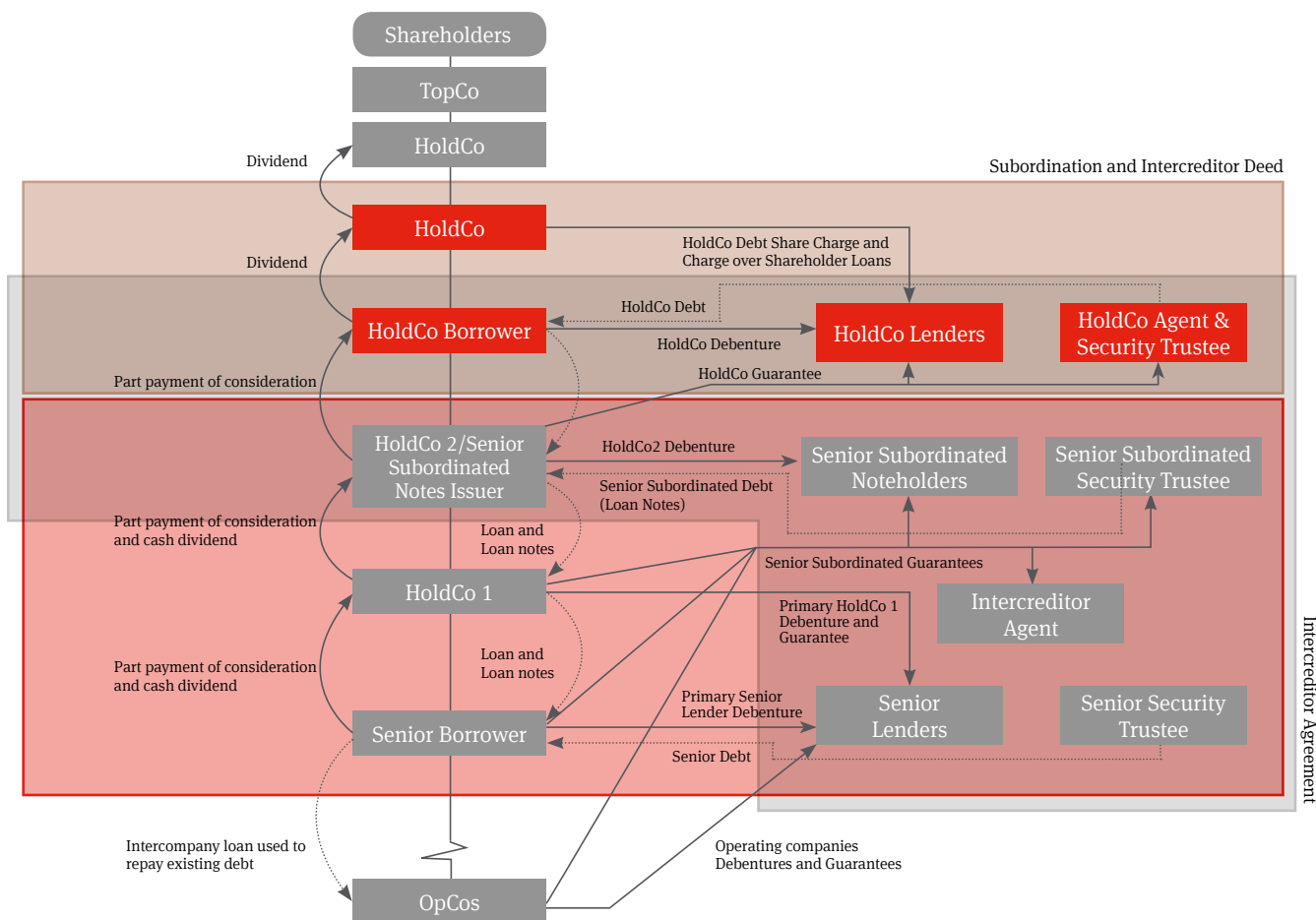
The opportunities and applications are endless and we are only addressing a few representative examples. The holdco structure can be deployed with respect to different assets or projects and with different levels of complexity.

In terms of complexity, holdco financing can, simply, be a senior only debt piece that is provided to a borrower one step removed from an operating company or asset. Security is provided over the shares in the borrower and its bank accounts but typically not the operating asset (as illustrated to the right). This leaves the lenders to rely on distributions from the subsidiaries that own the assets or, in turn, the operating companies creating cash flow being upstreamed to the sponsor (sitting above the borrower) to be used for debt service. Thus, only funds that flow to the sponsor via the borrower will service debt.

On the more complex side of the spectrum (illustrated below), multi-sourced holdco financing is becoming increasingly popular. This refers to those structures where a combination of bank lenders and institutional investors provide debt with different tenors at different levels in the



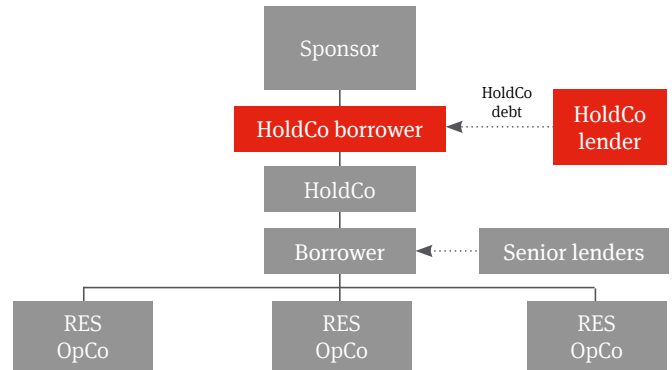
capital structure, with price increasing the higher up in the structure due to higher risk as the debt becomes more remote from the asset. Traditionally, multi-sourced financing refers to project finance where development finance institutions (DFIs) such as IFC, EBRD or similar are involved and are lending on very particular terms. This is different in that the lenders are all commercial; however they are a mix of commercial banks and funds lending loans, subscribing for loan notes and bonds and providing ancillary facilities.



Along this sliding scale of complexity, there are many applications and opportunities:

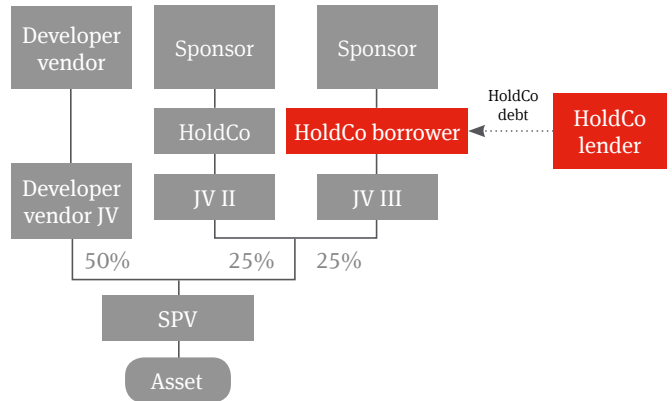
**Refinancing/equity recycling**

An illustrative example of its more basic application is an operating portfolio of renewable assets bundled together under a new holding company (holdco), at which level the debt is raised. The purpose could be to refinance all or parts of existing project finance debt at the asset level and/or to repay the developer its development and initial investment costs together with a premium.



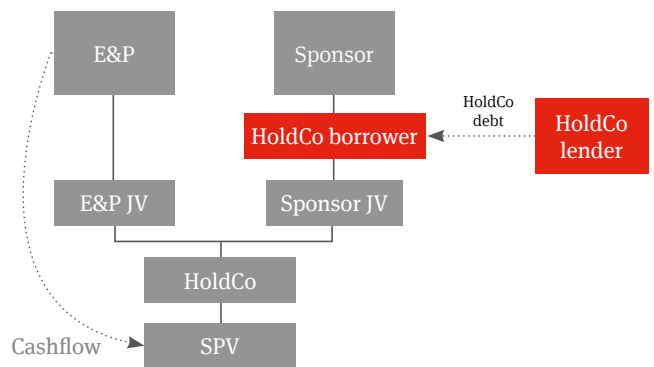
**Equity recycling/acquisition**

An example could be a sell-down of a stake in an offshore wind farm, an electricity interconnector or another large and capital intensive energy infrastructure asset (including, for example, the Competitively Appointed Transmission Owner projects (CATO) which is the regime for opening up the development of onshore transmission links to competitive tender, mirroring the OFTO regime for offshore transmission, once launched by the British regulator Ofgem). As it is often a part-sale, for example 50/50 or 50/25, 25, where the developer/vendor retains a 50% stake, the lenders have no access to the operating assets as the acquirer raises acquisition debt independent of the asset.



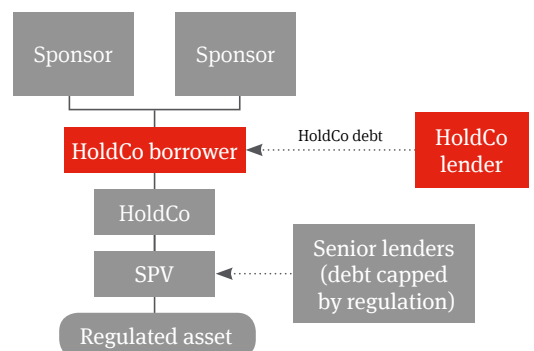
**Monetisation**

Low oil price puts pressure on cash strapped E&P companies to monetise cash flows. An asset or a cash flow can be monetised by creating a tariff that is ring-fenced in an SPV, a stake of which is sold. The acquirer of that stake, just as is the case in the example above, is holdco financed without access or recourse to the underlying assets. The particular challenge in this example would be to make the investor and the lender, both of which will most likely have little or no appetite for commodity risk, comfortable with the underlying risk profile.



**Regulated leverage optimisation**

Some energy infrastructure asset operators, particularly in respect of electricity and gas transmission assets, are subject to a regulated cap on income and leverage. Optimising the leverage by injecting debt higher up the capital structure by way of holdco financing can make an acquisition of a regulated asset feasible despite restrictions on leverage.



## Challenges

The complexity, the layers of debt and the nature of the lenders create particular challenges:

- contractual versus structural subordination – the space which the financing occupies in the capital structure will drive subordination and layered debt will require structural subordination
- multiple levels of intercreditor agreements – layers of intercreditor agreements will need to be aligned
- timing of funding – it is not unusual that institutional investors have slower access to funds than banks which will need to be taken into consideration and built in to the timing of drawdowns
- security – enforcement rights and protections at the different layers require careful consideration and negotiations. So as to avoid nasty surprises in an enforcement situation, it is important to understand change of control restrictions that may be in place at an operational level in existing financing documents, project documents, the relevant regulation and offtake arrangements. Depending on the capital structure, there may also be joint venture issues that need to be considered
- upstream loans, clawback and turnover – what rights of clawback can more senior lenders have in case the funds received by the holdco borrower have already been used for debt service at the holdco level? The timing and right of clawback and turnover are contentious issues that require negotiation
- distributions; no change – as the holdco lenders are completely reliant on upstreaming of cash, any changes to operational corporate documents and senior financial covenants that affect distribution up the structure and would trap cash, could have detrimental effects on the junior debt service and require protection
- information rights and obligations – will the holdco lenders receive the same information as the senior lenders and the sponsor or will the holdco information be ‘packaged’? Will the senior lenders be required to inform the lenders on the occurrence of events such as defaults or will the holdco lender have to rely on the borrower to do so?
- financial covenants – there are typically fewer financial covenants (if any) with more borrower friendly incurrence-based rather than maintenance-based covenant tests
- operational group restructurings – whilst junior lenders have no control over the operations of the operational group, they will be conscious of and will want to have some restrictions around permitted drop-downs, investments and disposals
- tenor, risk profile and pricing – as is the case in any financing with more than a single lender, the tenor, risk profile and pricing need to be aligned and understood amongst the groups of lenders; for example, whereas there may be few real restrictions the junior lenders can impose, a cap on increase debt on the senior level – a maximum headroom – will be important
- repayment – holdco lenders need to be comfortable that there is a real risk that their debt will remain unpaid and no interest paid, but rolled-up, until maturity. This needs to be taken into account in the modelling
- tax – as with all financing structures, tax considerations will be of fundamental importance.

## Managing risk

Every investment and financing transaction has its own risk profile. In each case, market forces, environment, technical, regulatory, political and financial factors interrelate differently. The finance market has found ways to deal with regularly occurring risks and has developed tools to mitigate them: hedging to manage interest rates, currency and commodity price risk; fixed-price contracts and performance guarantees to manage cost overruns and delays; take-or-pay agreements to mitigate long-term power supply risks and power purchase agreements to manage offtake risks.

Often, financing of energy infrastructure projects and transactions and the deployment of funds need to be approached on a regional, if not on an individual country, basis. Holdco financing is not different. As illustrated overleaf, there are differences between the EU Member States that will drive or indeed prohibit investments.

### Country risk

The inherent risks of investing in a specific sovereign country require detailed analysis. *Euromoney Country Risk* analysis<sup>1</sup> is an example of how the EU Member States could be assessed broadly. *Euromoney Country Risk* evaluates the investment risk of a country, such as risk of default on a bond, risk of losing direct investment and risk to global business relations by using a qualitative model, which seeks an expert opinion

on risk variables within a country (70 per cent weighting), combining it with three basic quantitative values (30 per cent weighting). As illustrated overleaf, the *Euromoney Country Risk* analysis suggests that the country risks are higher in south and south-east Europe.

Companies and investors cannot control political and regulatory risks. Set out opposite are a few key risk indicators that can affect investment appetite into the EU. These risk indicators represent a selection of the results presented in the *Global Competitiveness Index Executive Opinion Survey*. Despite the mitigants and tools available, there are still some investment risks that are more difficult to mitigate and that, ultimately, will determine whether investments take place in a certain jurisdiction or not. Whilst on a global scale, the EU28 may appear similar from a risk perspective, they are not if the comparison is limited to the EU. No two investors or debt providers will assess risk in the same way or have the same level of risk aversity or appetite. The analysis and graphically presented key facts and indicators are intended to give an indicative overview for investors and debt providers, perhaps mostly so for those that are based outside the EU28 that are looking for opportunities in the EU. As the radial graphs illustrate, there are EU Member States that have significantly weaker investor protections than others.

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<sup>1</sup> Euromoney Institutional Investor PLC; Euromoney Country Risk index 2014, using their risk score as of 4 March 2014



### The risk grid

The investment parameters are described through radial graphs, applying the World Economic Forum's scale (where small symbolises higher risk).

1. Property rights | respondents were asked to rank the protection of property rights, including financial assets
2. Intellectual property protection | respondents were asked to rank the strength of intellectual property rights, including anti-counterfeiting measures
3. Judicial independence | respondents were asked to rank to what extent the judiciary is independent from members of government, citizens or firms.
4. Efficiency of legal framework in settling disputes | respondents were asked to rank the efficiency of the legal framework (where private business is concerned) in settling disputes
5. Efficiency of legal framework in challenging regulations | respondents were asked to rank the ability for private business to challenge government actions and/or regulations through the legal system
6. Protection of minority shareholders' interests | respondents were asked to rank to what extent the interests of minority shareholders are protected by the legal system
7. Quality of overall infrastructure | respondents were asked to rank the state of the overall infrastructure, including transport, telephony and energy

The complete list of factors and indicators, the details of the methodology as well as the contextual comments on each country's performance in the rankings can be found in the current edition of the *Global Competitiveness Report*<sup>2</sup>.

In addition to country risk and investment parameter dimensions, the grid overleaf sets out statistical facts for each EU Member State<sup>3</sup>.

### Key investment indicators and risks

#### Global Competitiveness Report

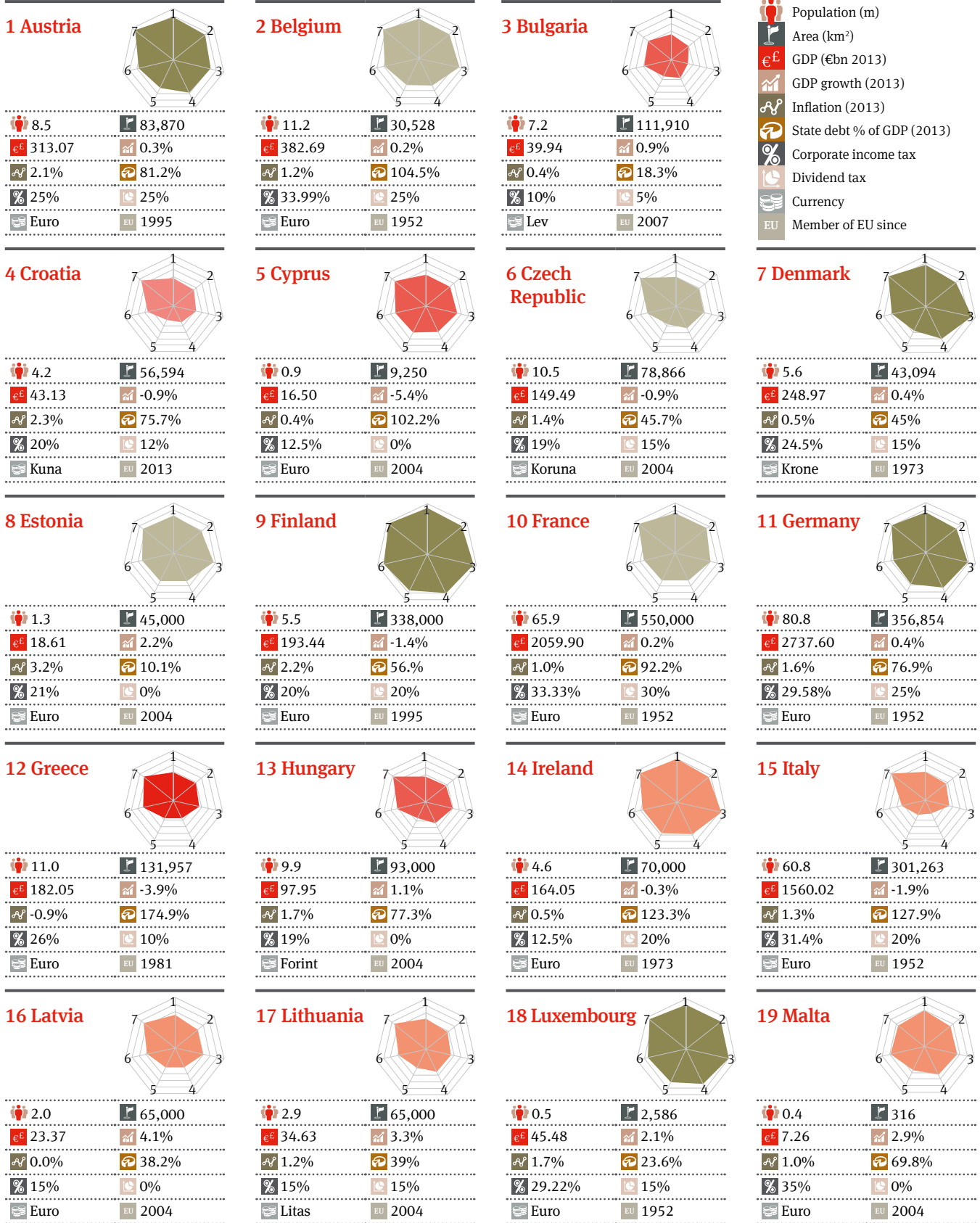
For 35 years, the World Economic Forum has looked at factors that determine and drive economic growth and how they interact globally. Every year, they publish the *Global Competitiveness Report*. Covering 144 countries, it uses key indicators across 12 pillars to rank the world's countries. A key feature of the *Global Competitiveness Report* is the Executive Opinion Survey, which, in the 2014–2015 edition, captured the views of 14,000 business leaders across 148 countries between February and June 2014<sup>4</sup>.

<sup>2</sup> The Global Competitiveness Report 2014-2015, World Economic Forum

<sup>3</sup> Eurostat; Europa.eu; 'Corporate tax rates table', KPMG and 'Tax guides and highlights', Deloitte

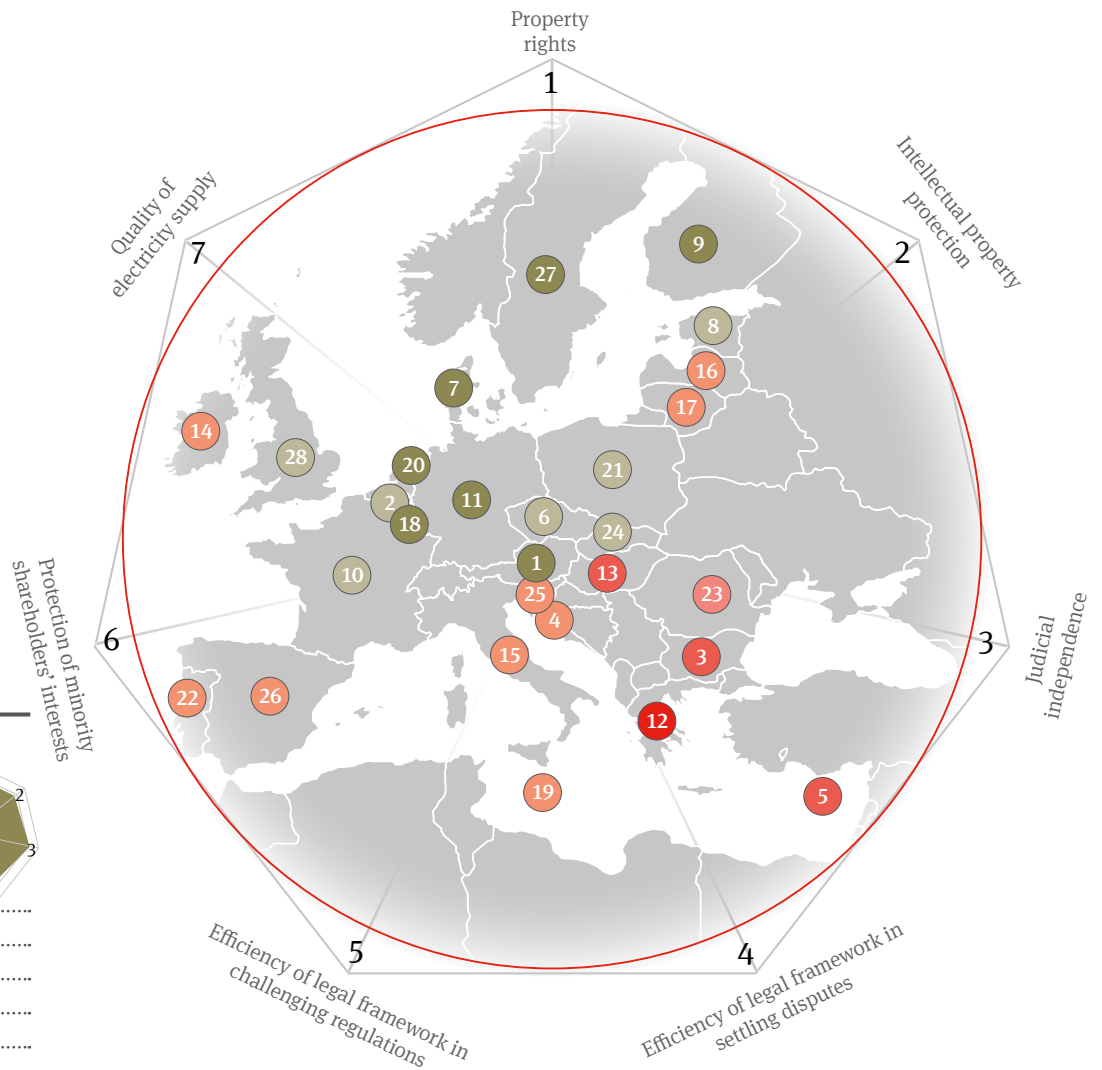
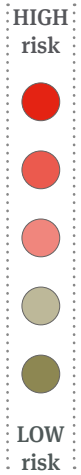
<sup>4</sup> The Global Competitiveness Report 2014-2015, World Economic Forum

EU 28 key facts and risk indicators<sup>1</sup>

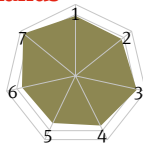


<sup>1</sup> As determined by Euromoney Country Risk index 2014

Country risk analysis

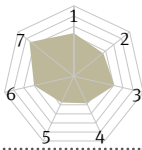


20 The Netherlands



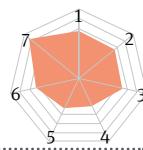
👤 16.8	🏠 41,526
💶 602.66	📈 -0.8%
📈 2.6%	🏠 68.6%
👤 25%	📈 15%
🏠 Euro	🇪🇺 1952

21 Poland



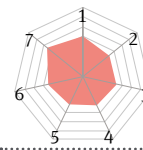
👤 38.5	🏠 312,679
💶 389.70	📈 1.6%
📈 0.8%	🏠 55.7%
👤 19%	📈 19%
🏠 Zloty	🇪🇺 2004

22 Portugal



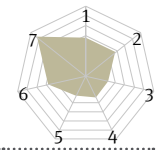
👤 10.4	🏠 92,072
💶 165.69	📈 -1.4%
📈 0.4%	🏠 128%
👤 23%	📈 25%
🏠 Euro	🇪🇺 1986

23 Romania



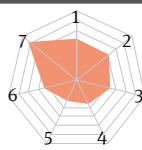
👤 19.9	🏠 237,500
💶 142.26	📈 3.5%
📈 3.2%	🏠 37.9%
👤 16%	📈 16%
🏠 New Leu	🇪🇺 2007

24 Slovakia



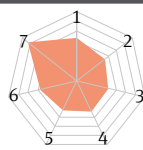
👤 5.4	🏠 48,845
💶 72.13	📈 0.9%
📈 1.5%	🏠 54.6%
👤 22%	📈 0%
🏠 Euro	🇪🇺 2004

25 Slovenia



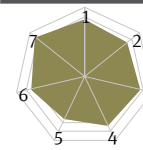
👤 2.1	🏠 20,273
💶 35.27	📈 -1.1%
📈 1.9%	🏠 70.4%
👤 17%	📈 15%
🏠 Euro	🇪🇺 2004

26 Spain



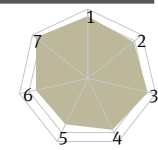
👤 46.5	🏠 504,782
💶 1023.00	📈 -1.2%
📈 1.5%	🏠 92.1%
👤 30%	📈 21%
🏠 Euro	🇪🇺 1986

27 Sweden



👤 9.6	🏠 449,964
💶 420.85	📈 1.6%
📈 0.4%	🏠 38.6%
👤 22%	📈 30%
🏠 Krona	🇪🇺 1995

28 United Kingdom



👤 64.3	🏠 244,820
💶 1899.01	📈 1.7%
📈 2.6%	🏠 87.2%
👤 21%	📈 20%
🏠 Pound	🇪🇺 1973

## Raising finance

Financiers typically require robust security packages, covering all assets, income streams and contracts of the project company or full security over a target group. With a holdco financing structure, the security package available to financiers will be limited. Any project, transaction and project vehicle will need to be bankable and any security package will be driven by the market and, to a certain extent, regulatory requirements in terms of design, cost-benefit analysis, governing law of contracts and capital structure.

### Documentation

The key in a multi-source holdco financing is to make sure that the financing structure and the documentation cater for not only banks' but also the institutional investors' debt. Whilst it is not rare that it is initially intended that the debt is provided on a senior only basis, this often evolves as lenders consider layering the debt to match a higher risk appetite, thereby allowing the developer, investor or project promoter to raise more debt. To the extent that the debt is provided on a senior *pari passu* basis, we would expect all lenders – banks and institutional investors – to be parties to one facilities agreement. In complex, multi-sourced project finance transactions where lenders include the EIB, IFC or other DFIs, a common terms agreement combined with separate loan agreements for each of the lender groups is not unusual; however, we would not expect that approach to be palatable or practical in a holdco financing structure where these institutions are not participating. If, however, there are layers of debt, junior layers would need to be subordinated.

Whereas commercial bank lenders provide loan facilities (term loan facilities, revolving credit facilities, liquidity and VAT facilities, stand-by facilities etc) and ancillary facilities, institutional investors provide term loans, loan notes and/or bonds, the different features of which need to be taken into consideration and may lead to a different documentary structure.

### Ancillary facilities

Institutional investors are unlikely to be able to provide revolving credit facilities, ancillary facilities and letters of credit and hedging, which only banks can provide. Hedging and protections of letters of credit providers form important parts of the intercreditor arrangements, making sure that they have a ranking that is commensurate with their exposure.

### Funding

Vendors typically require that acquisition debt is provided on a certain funds basis, which has also been the norm for private acquisitions for more than a decade. Where there are conditions precedent to completion that take more time than would typically be the case in a *public to private*, the certain funds period may end up being longer than is the norm; this can affect appetite as well as the debt pricing. Also, many institutional investors may be unfamiliar with the 'certain funds' concept as such.

### Certain funds

'Certain funds' provisions in loan documentation originate from the requirements of the City Code on Takeovers and Mergers, which governs the takeover of any listed UK entity. The City Code requires that a bidder must announce a bid only after ensuring that it can fulfil in full any cash consideration (if any is offered) and after taking all reasonable measures to secure the implementation of any other type of consideration.

For well over a decade, a similar approach has been adopted in private M&A transactions. Private vendors (particularly in private equity institutions but increasingly industrial vendors) require that SPAs are not conditional on the financing, i.e., once signed there can be no out for the purchaser (or the lenders) other than as specifically negotiated in the SPA. In this context, many energy infrastructure acquisitions take on the characteristics of private equity M&A.

Parties must enter into (or agree to) full credit documentation at the time they sign an SPA to have true 'certain funds'. All material conditions to the availability of the financing under the loan documentation must be in the borrower's control at the time of signing the SPA. The loan documentation will provide that the breach of only a very limited number of representations and covenants (limited only to the borrower's status and capacity (not the target's) and covenants that are solely within the borrower's control) will be conditions to the availability of funding. A holdco lender is more removed from a target than a traditional certain funds lender and will thus have less control and will need to seek comfort elsewhere.

Some lenders remain conservative on leverage and would typically expect a fairly conservative debt to equity ratio, which could come down under the right circumstances. Lenders are willing to accept EBITDA multiples close to, if not in excess of, 20 in this space. It is, however, important for lenders to see a real possibility to refinance balloon repayments in case required.

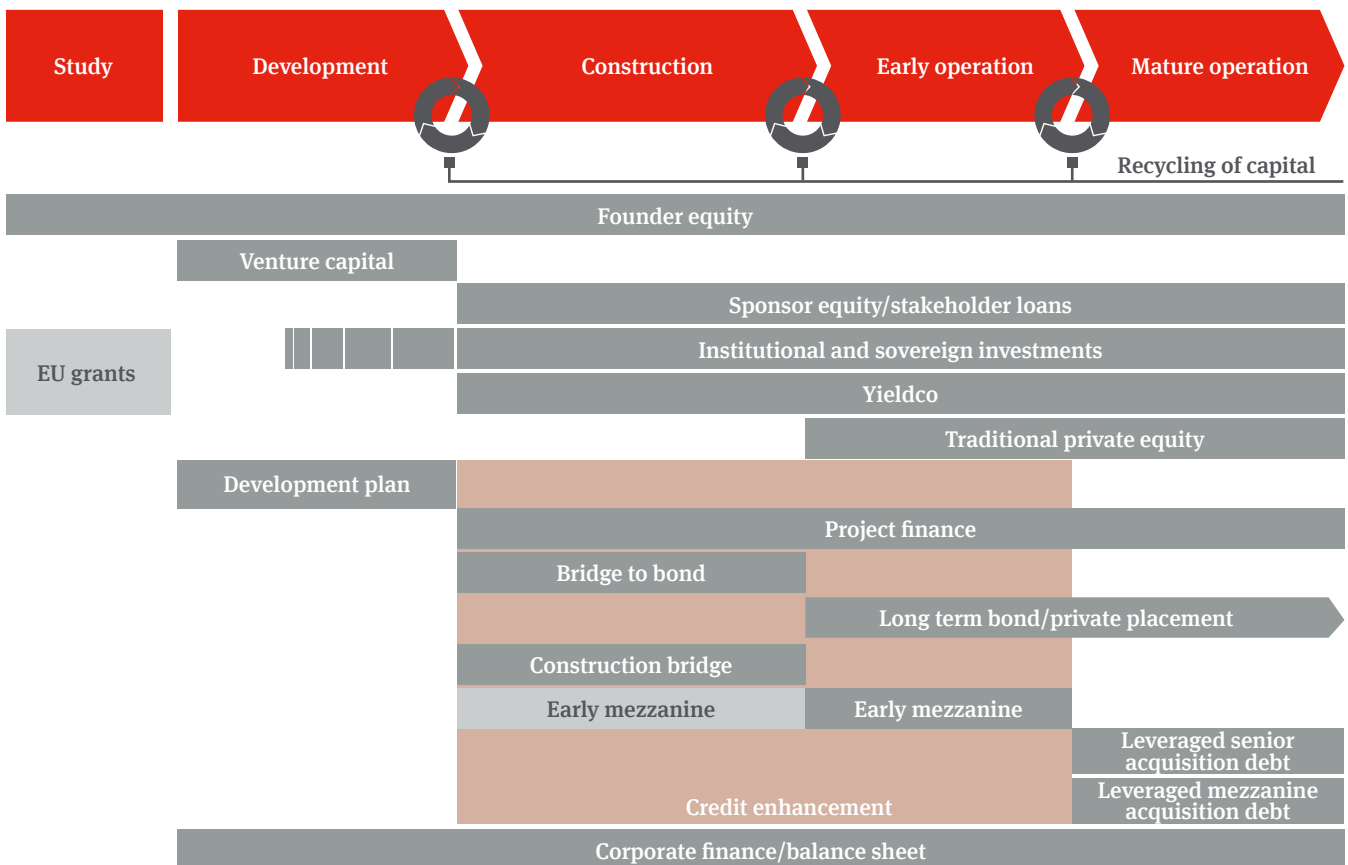
### Security and comfort

Using the examples outlined above, a joint venture structure does not necessarily allow for traditional secured financing as the developer/vendor joint venture partner has no desire to create security over its assets or the operational assets. This means that, in effect, the holdco debt financiers will have to be comfortable with recourse limited to the borrower's actual assets. It will be important for the lenders to control cash flow and to ring-fence the assets over which they have security. In a construction holdco financing, it will also be important for them to have some form of comfort that the developer/vendor joint venture partner will actually complete its portion of the project on time; after all, without the developer/vendor joint venture partner completing its part of the project – be it an offshore wind farm, an interconnector or an oil & gas asset – there is no project. An early dialogue should be had with prospective lenders as well as with the developer/vendor joint venture partner for the purpose of understanding the level of comfort that is required and indeed can be provided.

## Timing

At what time in the life of an asset can holdco financing be used? This graph aims to illustrate where different types of finance are available over the life of an asset or a project, noting at which points during that life that recycling of capital typically occurs. In contrast to other forms of financing, the flexibility of the holdco financing allows it to be employed at any stage in the asset life or project life. Very much depending on the risk appetite of the lenders, it can be at any stage from late development to mature operation.

The combination of a contracting banking market where bank lending to corporates has decreased and institutional investors' appetite for yield in a low government bond yield environment has led to new money coming to market being available for energy infrastructure investment and financing, on a projects basis or later stage at the early operational or mature operational stage.



## The lenders

Energy infrastructure investment is thus a very dynamic space. To pension funds, insurers and infrastructure funds, infrastructure investments can provide important low-risk and low-correlation as well as attractive long-term yield. Unlisted infrastructure assets are usually held by the investors on a buy-to hold basis and the key economic risk that investors face is not that of liquidating the investment at an undervalue but rather that of counterparty default or prepayment risk.

What used to be a ‘wall of debt’ is now a ‘wall of funds’. Capital – both debt and equity – is ready to be deployed across Europe for the right energy infrastructure asset, on a traditional project finance basis as well and on an acquisition basis and any combination of the two. Many investors, however, find it difficult to find assets that meet their requirements and, conversely, project promoters, sponsors and initial investors find it difficult to find available capital. One reason is that this wall of funds is very diverse and needs to be assessed carefully. As it has become clear that banks’ balance sheets will not be able to support the global need to finance energy infrastructure, attention has increasingly turned to institutional investors. The sums held by institutional investors – principally insurers, pension funds and sovereign wealth funds – approach the funding gap in scale. The pricing, ticket sizes and tenor institutional investors can offer borrowers can also make them more attractive than traditional bank funders.

Seen from the institutional investors’ perspective, there are several factors pushing them to take up energy infrastructure debt:

- the investment profiles of the institutional investors are, in some respects, particularly well-suited to energy infrastructure debt. They are usually seeking long-term, low-risk, fixed-income products to match the nature of their insurance, pension and sovereign liabilities. For insurers, this is complimented by incentives to match the tenor of funding sources and liabilities under Solvency II.
- although the lack of a transparent index or public market makes direct comparison difficult, infrastructure is widely seen as a well performing asset class over the long term. Even for investors whose priorities lie elsewhere, the diversification benefits of unlisted energy infrastructure may prompt moves into an area which is currently underinvested by most institutional investors.
- historically low interest rates make the returns available to those prepared to take a short period of construction risk particularly attractive.

- major institutional investors are facing political pressure to invest directly into infrastructure.

Institutional investors are considered a huge potential source of investment and there are indications of current and potential increases in overall infrastructure investments. Entrusted with the money of others, they tend to look for long-term, low-risk, low-volatility investments that generate inflation-linked, predictable returns. Risk averse pension funds would look at stable returns, but accept a lower yield, whereas venture capital would go in early, but in return expect returns of up to 50 per cent if not more. Sovereign wealth funds can take a different approach to construction and even late development risk as they, in contrast to many other financiers, are typically not seeking yield but return on investment. A holdco debt piece with capitalised interest and a balloon or bullet repayment structure can prove very attractive.

Different investors and debt providers assess and accept risk differently.

The risk appetite differs during the life cycle of an energy infrastructure deal. Institutional investors can be wary of taking long-term risks on energy infrastructure projects, such as uncertainty around policy and regulatory changes; lack of historic data, especially for renewable energy projects; construction and completion risks; technical and design failures; poor operational performance, and/or commodity prices. However, risk management strategies exist and done right, investments in energy infrastructure, can be long-term stable cash-yielding assets, which are uncorrelated with the capital market and therefore fit incredibly well with institutional investors’ investment appetite.

### Bank disintermediation

A common theme for the new money is the disintermediation of banks as institutional investors are increasingly funding projects, assets and acquisitions directly. Banks tend to remain in transaction structures even where they are not lenders as these newcomers do not have the ability or depth of back office to handle bank accounts, ancillary facilities, revolving facilities, agency roles or hold security. Some of these roles are also handled by independent non-bank entities or agency and security trustee functions linked to a fund. This has led to a shift in focus in many transactions, with detailed negotiations of intercreditor arrangements and the agency and security agency provisions, terms which were seen as boilerplate in the past.

Whether capital will flow to energy infrastructure depends on a number of factors. It is important to understand that whilst there is an abundance of funds now available, monies are by no means earmarked for European energy infrastructure. Capital is highly liquid and can move to another sector and another continent very quickly. The policy framework, the regulatory environment and other risk factors will determine the levels of appetite. Energy and energy infrastructure are thus competing for capital that easily could be put to work elsewhere.

Applying a level of granularity and looking at the requirements of the different investors, the many criteria and risk factors mean that the funds available for a particular asset or project may either be in the sweet spot for many investors and therefore attract enormous interest and consequently a healthy price tag or attract only very few investors, if any.

<b>IRR</b>	<p>Different IRR expectations drive availability of capital.</p> <p>The internal rate of return or IRR is a typical way of describing an equity investor’s expected return of capital. Whilst the IRR can be as low as ‘high singles’ (6-8 per cent), ‘under 10’ (9 per cent), ‘10’, low teens etc, it is the assumptions underlying the IRR calculation and the weighted average cost of capital or WACC that really determines the IRR and in the end, the investor’s readiness to accept or require a certain yield level.</p>
<b>Debt or equity</b>	<p>One of the more interesting features of the new players in the energy infrastructure space is their flexibility. Some provide debt, some provide equity, some provide both. Making a distinction between energy infrastructure equity and energy infrastructure debt is however fundamental, both from an investment and investor perspective and determines how the investor holds the investment on its balance sheet.</p> <p>A common query for the equity investor – apart from the feasibility of the project or the value of the asset – is the ticket it will invest. What are the minimum requirements? Is it intending to buy and sell or buy to hold? What is the acquisition strategy – 10 per cent, sub 50 per cent and avoid consolidation, over 50 per cent to gain control, clear majority or single owner. The size of a project or transaction is obviously an important factor as very few players can on their own take on a multi-billion project. And even if they could, they may not want to.</p> <p>The debt space used to be rigid in that acquisition finance was distinct from project finance which was distinct from asset finance etc. This has changed dramatically and the debt space in energy infrastructure in particular is now an eclectic mix of senior, senior subordinated, mezzanine and holdco debt, on a bridge, short term, mini-perm or long-term basis. As is the case with equity, debt providers have different requirements which makes it difficult to assess the amount of available capital.</p>

<b>Risk appetite</b>	<p>Different investors come in at different times over the life of a project or an asset. Whereas some are comfortable with construction risk, others can only invest in operational assets.</p> <p>Which currencies can the investor accept? Some pension funds may find it difficult to take on currency risk in countries outside their own currencies. This obviously helps many Eurozone based investors to find a broader European base, whereas investors in the EU that are not in the Eurozone may find it difficult to diversify to other currencies.</p> <p>Which risks are acceptable – merchant or market risk versus tariff? The regulatory risk and cash flow risks drive many investors’ investment criteria as does the appetite for regulated assets.</p>
<b>Sector</b>	<p>The sector focus will drive the appetite for investment. Some may only invest in renewables, some only in sub-sectors such as solar, some may invest only in ‘core infrastructure’ whilst others may have a broader scope.</p>
<b>Geographies</b>	<p>Many investors are restricted geographically in that they can only invest in OECD, the EU, northern Europe or EMEA.</p>



## European Union co-funding

Energy infrastructure and energy efficiency are high on the European Commission's agenda and it could be useful to explore the options of combining funding from banks and institutional investors (for equity as well as debt) and to consider which European Union initiatives could be relevant early on in the structuring. Depending on the asset location, there are a number of European Union initiatives that could be relevant. In any event, funding available under the European Fund for Strategic Investment – the Juncker Plan – may well be an interesting option to explore.

A project that has *PCI status* will not only benefit from a streamlined permitting process and the 'one stop shop' approach that the national regulator must take, but also access to the Connecting Europe Facility (CEF). The aim of CEF is to accelerate investment in trans-European networks, to leverage funding from both public and private sectors and contribute to the European Union's mid-term and long-term decarbonisation objectives. Support under CEF is provided in two forms – grants and financial instruments – the latter making up no more than 10 per cent of CEF.

PCIs are eligible for European Union co-funding, but it is by no means automatic. A sufficiently attractive framework for long-term financing, including adequate regulatory incentives and long-term regulatory certainty (including cross-border cost allocation) is a pre-condition for infrastructure development.

However, it is intended that the market should have investment priority and if there is not sufficient investment appetite, regulatory solutions should be explored to incentivise investors. Project promoters and national regulatory authorities are expected to explore these routes together. Where both these options have been exhausted, in that there is insufficient market appetite and regulatory reform does not help, European Union funding can be made available subject to conditions.

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