Environmental Finance
AWARDS 2007

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Blazing a trail

The past 12 months have seen environmental markets go from strength to strength. To mark this growing maturity, *Environmental Finance* salutes the leading deals and personalities that are helping to push the limits of market-based solutions to environmental problems

With each passing month, environmental issues take another step into the finance mainstream. Environmental or clean technology companies are springing up like mushrooms – and, unlike at earlier high tides of environmental concern, are reporting serious revenues and reaching significant scale. Renewable energy capacity is growing dramatically, albeit from a low base. And the carbon markets are growing apace, with most commentators expecting their role to increase as ever-deeper cuts in greenhouse gas emissions are required.

It is against this backdrop that *Environmental Finance* magazine has decided to recognise some of the leaders in the markets we cover, with our inaugural annual awards. Unlike our closely watched annual Market Survey, which polls our readers for their views on the top service providers across the emissions, renewable energy and weather markets, these awards are made by the magazine's editorial staff. We invited nominations in late June, and canvassed the opinions of an informal judging panel among our market contacts on a short-list of entries, to come up with the winners featured over the following 10 pages.

With awards in four different markets – initial public offerings, renewable energy project finance, carbon finance and weather risk management – there was no one set of criteria, except that deals had to be closed or executed within the 12 months to June 2007. What we were looking for was innovation, significant volume or the definitive opening of environmental finance to new investors or markets. And there was certainly no shortage of any of them in the nominations we received.

When this magazine was launched back in 1999, a common question we were asked was whether the phrase "environmental finance" wasn't an oxymoron – particularly by financiers, suspicious of what some saw as a politically-correct fad. What is most encouraging about these awards is that they show the degree to which blue-chip financial institutions have since identified the opportunity presented by environmental markets – often in cooperation with small, entrepreneurial trail-blazers.

Such large institutions can tap into innovation from elsewhere in the financial markets, and can deploy capital at scale. And, given the magnitude of the environmental pressures we face, scale is what is urgently needed. So, we look forward to even greater innovation, and greater impact, from next year's nominees. In the meantime, we salute this year's winners.

Mark Nicholls, editor

Reporting by Christopher Cundy, Jess McCabe and Mark Nicholls

PERSONALITY OF THE YEAR

Neil Eckert

IPO OF THE YEAR

WINNER
First Solar

RUNNER-UP
EnerNOC

RENEWABLE ENERGY PROJECT FINANCING OF THE YEAR

WINNER
Babcock & Brown wind farm portfolio refinancing

RUNNER-UP
Q7 offshore wind farm

CARBON FINANCE TRANSACTION OF THE YEAR

WINNER
Yangquan coal mine methane capture and utilisation CDM project

RUNNER-UP
Sustainable Forestry Management and Credit Suisse joint venture

WEATHER RISK MANAGEMENT DEAL OF THE YEAR

WINNER
Ethiopian famine relief

RUNNER-UP
Bay Haven catastrophe bond

curve, and are becoming able to scale up significantly. There's been a lot of volatility in clean technologies over the years, but we're starting to see some scale from companies such as First Solar, Sunpower, and Q-Cells.

"What is apparent is that investors are ready to look for long-term investment opportunities in the sector," he concludes.

RUNNER-UP

EnerNOC

The environmental technology space is about more than clean energy, but the runner-up in the *Environmental Finance* IPO of the Year is another US energy company – although one that takes a quite different approach to First Solar. Rather than generating additional power, Boston-based EnerNOC instead develops and operates technology to reduce peak-load demand, producing 'negawatts' – or negative megawatts of capacity at crucial times.

The company, set up in 2001, builds and manages a network between end-use customers (who are paid to participate) and the grid that reduces non-critical load when grid operators face supply constraints. The system operates effectively as a peaking power plant, but at much lower costs, and with almost zero carbon emissions.

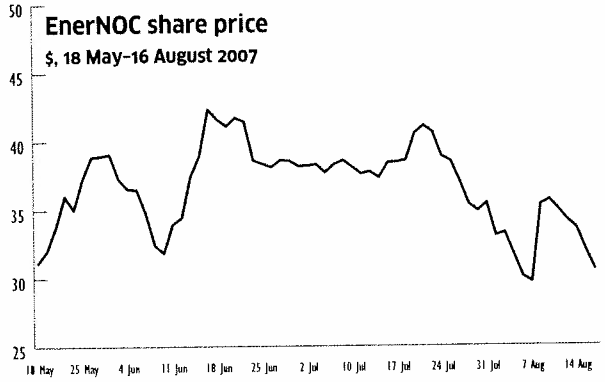
"It's a very unique solution, addressing a pressing problem," says Sanjeev Chaurasia of Credit Suisse which, as with First Solar, was joint book-running manager with Morgan Stanley. Canaccord Adams and Jefferies acted as co-managers.

"The company is not profitable but, again, they were able to convince investors that they had something which was unique, and would grow to profitability in the medium-term," he adds. "People are buying the growth and business model story."

"The company's got a terrific, dynamic management team that understood the market opportunity," said Kevin Genieser, the New York-based managing director at Morgan Stanley responsible for the IPO. He says there was enthusiasm for the stock from a range of investors, including technology funds, environmental funds and traditional utility investors, leading to a 22-times oversubscription for the flotation: "It became a very compelling, must-own stock – the market saw its terrific growth prospects."

The May launch on Nasdaq at $26/share, raised $99 million. "Where the company is in terms of market valuation and size is pretty impressive," Chaurasia says, with a market capitalisation of around $600 million, on revenues of just $12 million in the last quarter.

EnerNOC's share price performance may not have been as dizzying as First Solar's, but it's been impressive nonetheless. After strong growth between May and 20 July, when the shares hit $41.99, they have been victims of market volatility. But, by 18 August, they were at $33.51 – still some 28% up. Genieser downplays the recent drop-off: "the broader marketplace has come down. It's less a statement about EnerNOC, and more about market turbulence."



RENEWABLE ENERGY PROJECT FINANCING OF THE YEAR

Babcock & Brown wind farm portfolio refinancing

Onshore wind is becoming big business – but one deal this year signals more than any other just how big, and mainstream, it has already become. The market consensus is that the Renewable Energy Project Financing of the Year – Babcock & Brown Wind (BBW) Partners' €1.03 billion refinancing of its wind portfolio – takes project financing of renewables into a new era.

Completed at the end of May 2007, the deal brings together a 1,450MW portfolio of wind farms that spans three continents, five countries and nine wind regions. This is one of the deal's major strengths – presenting a package of wind farms diversified across location, wind profile, currency and government incentive schemes.

In particular, this has a positive effect on the 'P90' of the portfolio – a calculation of the output it is 90% likely that a wind farm will generate, which financiers use to judge potential revenue. Although other portfolio financings have taken advantage of this effect, this is the first to do so across borders and jurisdictions – helping BBW to reduce lenders' risks, thus improving leverage and lowering the margin it pays. Although BBW declines to disclose the exact pricing of this debt, the firm says it is "extremely competitive".

Gerard Dover, Babcock & Brown Wind: hybrid of corporate and project finance

The deal was quick to complete – BBW selected the banks in February, mandated them in March and closed in May. By mid-August – and despite deteriorating wider market conditions – the loan had been fully syndicated. Partly, the deal swept along because BBW "did its homework", as one banker says, benefiting from its parent company's expertise as an investment and advisory firm to tailor the package to appeal to financiers.

But the 15-year deal is almost as remarkable for the way it is structured, as the way it takes advantage of the 'portfolio effect'. "We've effectively ended up with a hybrid between a corporate facility and a project finance facility," says Gerard Dover, Sydney-based chief financial officer at the wind power giant. Like a corporate facility, the package effectively has a 'bullet' design – where the debt is paid in full at the end of three years – giving a strong incentive to refinance at that point. But, as with project finance, BBW will still make some repayments of principal during those three years.

It is unique in other ways as well – the money was loaned in three different currencies, and will be repaid in those currencies. Dover explains that this provides a hedge for the firm, as it is "borrowing in the currencies of our cashflow".

But the deal will be remembered not for these innovations, perhaps, but as a symbol of the unbridled growth of onshore wind. As Dover explains, the deal allows BBW to move beyond the model of financing wind farms one at a time using project financing – a lengthy and complex process. Instead, with this more corporate-style debt, the firm is able to be flexible and expand, without going through a project-by-project procedure.

Jerome Guillet, Paris-based director of energy at Dexia, one of the four banks that arranged the deal – along with Banco Espirito Santo de Investimento, Banco Millennium BCP Investimento and Bank of Scotland – notes: "Babcock & Brown is a very strong client. They have got a very strong track record of doing due diligence and being reasonably conservative. They were one of the few names which could have pulled it off – others may not find such aggressive conditions as Babcock."

"The market consensus is that the Babcock & Brown wind refinancing takes project financing of renewables into a new era"

RUNNER-UP

Q7 offshore wind farm

Offshore wind is a tricky proposition for financiers. The technology is relatively unproven, expensive to install and difficult to maintain. Unlike onshore wind, repairs must often be made in harsh conditions, making use of ships and boats. So the first stand-alone offshore wind farm project financing was sure to win plaudits.

The Q7 project, runner up in this category, is in the middle of construction 23 kilometers from IJmuiden in the Netherlands. When completed, Q7 will comprise 60 Vestas V80 wind turbines, each with a capacity of 2MW, and is expected to generate 435GWh of electricity a year. A quarter of the turbines are already in the water, and the project sponsors expect it to be up and running by March 2008.

Although one offshore wind farm has been financed by outside investors before, as part of a portfolio including onshore assets (North Hoyle, off the UK coast, completed in 2003) the Q7 deal is the first stand-alone financing of its kind.

Sponsored by Dutch sustainable energy supplier Econcern and leading Dutch energy company Eneco Energie, the financing was arranged by Franco-Belgian Dexia Credit Local, Netherlands-based Rabobank, France's BNP Paribas and Denmark's Eksport Kredit Fonden.

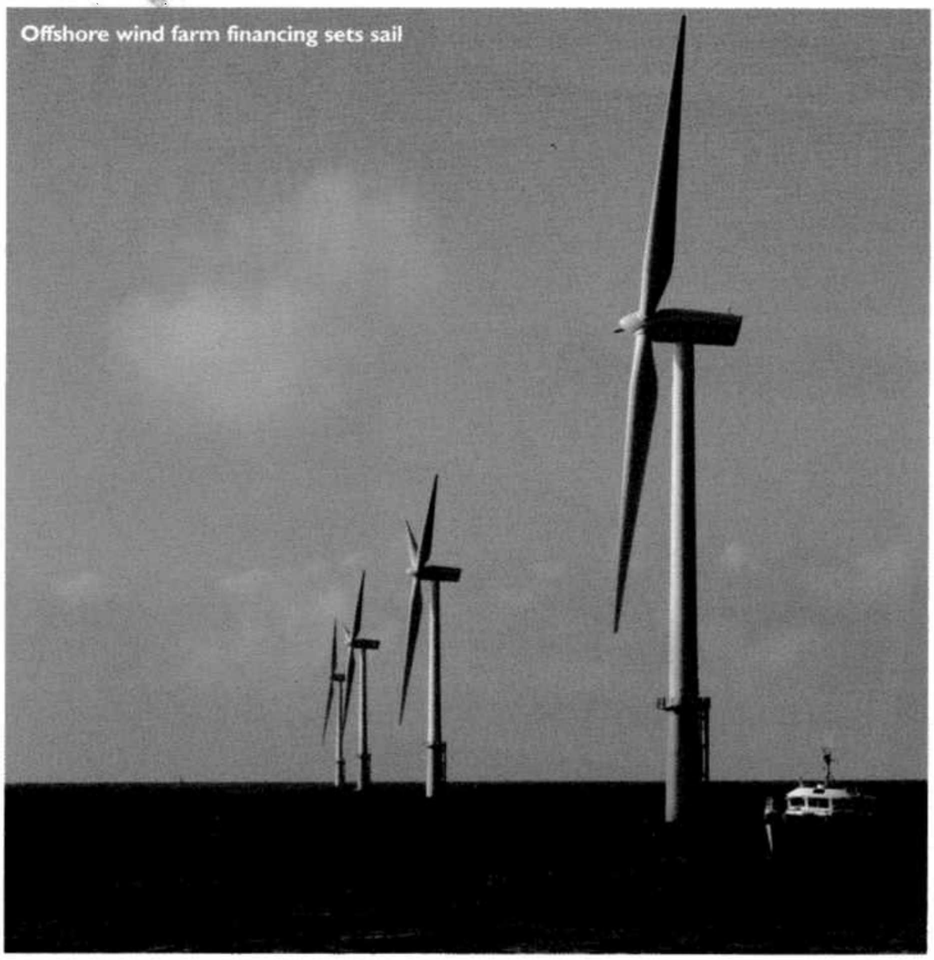
Toon Meijers, co-ordinator of the Q7 project for Eneco, says: "It took quite some time to arrange the financing. The banks really wanted to know every little detail of the project. Because it is the first, they saw a lot of risks in the project."

One important aspect of the deal, and why it took some nine months to hammer out, is that the banks have taken the construction risk associated with the project. The €188 million facility can be supplemented with an additional €30 million to cover contingencies.

"It was the first offshore wind farm to be fully project financed, so there wasn't really a template of how to do it," says Erik van de Brake, head of project finance at Rabobank. Yet Rabobank, at least, was keen to take on the project – even if it was more risky than other types of renewables financing. "We were very keen, as a bank, to support offshore wind technology and find a solution to mitigate construction risk," he adds.

The Dutch support mechanism was also crucial to the project's success: electricity from offshore wind is guaranteed a price of €97/MWh over the next 10 years.

Although the bankers were keen to finance the project – Jerome Guillet, Paris-based director of energy at Dexia, says the bank saw it as an opportunity to get a foothold in what could be a massive new technology surge (see pages 20–22) – Meijers admits that it was tough to complete the deal. "Although the project was at some time nearly dead, we kept it alive. We had banks that were willing to be creative." EF



Offshore wind farm financing sets sail