

When trade winds blow

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Enthusiasm is mounting in the UK renewables M&A sector with a fresh class of investor stepping up to invest in operational wind farms.

Considering the market is becalmed in the very heart of the silly season, there has been an impressive amount of activity on the M&A front – and it doesn't look set to slow down.

There has been a spate of European acquisitions during the summer months ranging from [DONG](#) exiting onshore projects to concentrate on offshore; through to [Bridgepoint](#) buying Spanish wind assets from [Auxiliar de Construcción y Servicios](#); and Scottish and Southern Energy selling 2 Scots and 1 Northern Irish wind farms to [Infinis](#).

There was also the highly-publicised failure of [Climate Change Capital](#) to raise the £61.3 million (€70m \$100m) it was reported to need for the acquisition of Braes of Doune wind farm from [SSE](#).

This sales activity is also cast in sharp relief by [Barclays Infrastructure Funds](#) accepting construction risk on its acquisition of a majority stake in a 26MW wind farm in Cambridgeshire, from [RES](#) Group.

Overall, this year has seen a number of new entrants move into the renewables space led by the likes of BIF which has been frustrated by lack of activity in the PPP sector and forced to look elsewhere for yield.

And with the utilities expected to continue trading out of smaller deals, there will be a steady stream of deals making it to market over the coming months – with a willing set of buyers lined up.

This market shift is speeding up as offshore becomes increasingly mainstream and onshore positively mundane. And the offshore wind sector is indeed becoming mature at a surprisingly speedy pace.

According to a report published by the [European Wind Energy Association](#), Europe added 883MW of offshore capacity in 2010 giving it a total capacity of 2,964MW – with just under half of that in the UK.

The UK is now undisputed global leader in offshore wind with a total of 1,341MW in the water. The next biggest offshore player [stats from end 2010] are:

- Denmark with 854MW
- Netherlands – 249MW
- Belgium – 195MW
- Sweden – 164MW

This sales evolution is stood up by [KPMG](#)'s *Renewable Energy M&A Report* for 2011 which reveals that completed deals in 2010 increased by more than 70%. This uptick in activity continued through to Q1 2011 when 141 deals were announced with a value of US\$11.2 billion (£6.9bn €7.8bn).

This report rightly identified the UK as one of the markets with greatest potential for M&A activity – coming second only to Germany.

As [Andy Cox](#), partner and KPMG global head of energy and natural resources for transactions and restructuring, says: "As M&A activity builds, competition will increase further underpinned by a strong desire to invest. Our survey highlights the strength of this competition for limited resources with a clear expectation of increased deal multiples."

[Ben Warren](#), [Ernst & Young](#) head of renewables, says: "We are seeing some interesting investments made by corporates into the renewables sector as well as new infra funds entering the market, and the likes of [IKEA](#) investing in wind assets.

"While western governments continue to battle with austerity, it seems perverse that corporates are taking more active interest in sourcing energy and making efficiency investments – which is perhaps a sign of longer-term strategic planning versus short-term austerity measures."

Warren adds: "We are at a stage where pressure is increasingly put on these companies – whether they be utilities or construction companies – with them being asked to invest in assets that otherwise they would just be building.

"Waste management companies are in a similar position with lots of infrastructure to build out, but not the balance sheet to do it – and so they are looking at creative ways to get those assets financed.

"There is a bit of a shift from the owner/operator model to the operator/different owner model which means long-term financing investors like pension funds."

[Euan McVicar](#), partner at [McGrigors](#), says: "We have seen a great deal of M&A activity in the UK renewables sector in the past months and have been particularly active on the buy-side.

"The emergence of new entrants to this market is very much to be welcomed. It's only through this that we will see risk and capital allocation that will allow renewable energy to play the part in a low-carbon economy that UK government's EMR reforms require."

Consolidation

It will be a long time before there is any meaningful consolidation in the UK offshore market and the same goes for solar – though it will happen in both cases – it is inevitable that the more commoditised a technology becomes, the more it will change hands.

For many of the new wave of investors, the risks that they shunned in the early days of onshore wind have been proved out by time and data and new investors are now lining up to replace the strategic ones.

While the likes of DONG are selling on their stakes in onshore to invest in offshore, there are also a host of private equity investors seeking to optimise their portfolios.

"We are going to see a steady flow of early funds that invested in onshore wind farms looking to sell on assets as they have come through the development cycle" says [Dima Rifai](#), managing partner at [Paradigm Change Capital Partners](#).

"Also some of the utilities are looking to optimise their balance sheets by recycling out of low return to higher return assets. There hasn't been as much of that in the UK wind market, but this could happen. It has already taken place in solar around Europe.

"It is natural that as these assets become more mature, the market will become increasingly commoditised and new capital sources become available. These assets will then move to the next level of investor – the natural long-term holders of these assets."

The most likely holders of these assets are listed funds and the sort of institutions that everybody talks about – insurance companies and pension schemes [[Market Analysis](#)].

But for an M&A market at such an early stage of its formation, it is worrying that there is already talk about too much capital chasing too few deals.

"The movement is there and certainly the drivers for the movement are there – people maximising their value added in their part of the value chain and selling through to the next investors, who are more natural asset holders than they are asset maximisers," adds Rifai.

It pays to connect

With ageing plant around Europe reaching the end of their effective lives and Germany shunning nuclear, reliance on neighbouring markets shall increase and the role of the interconnect will grow in importance.

Looking at the UK alone, there are already 4 interconnects in place and operational:

- Moyle HVDC Interconnector – a 66-mile, 500MW connection owned by [Northern Ireland Electricity](#) (NIE) and [Scottish Power](#) that has been operational since 2002
- Anglo-French HVDC Interconnector – a 2GW connection owned by the [National Grid](#) and Réseau de Transport d'Electricite (RTE)
- BritNed HVDC Interconnector – a 147-mile, 1GW connection that went live in April 2011 linking the UK to the Netherlands, based on [Siemens'](#) tech and cable from [ABB](#)
- IFA: the 2GW connection from the UK to France which, like Anglo-French HVDC Interconnector, is owned by National Grid and RTE and has been operational since 1986

There are plans for an expansion to IFA and there is another one under construction. Work has already started on the East-West HVDC Interconnector: a 149-mile, 500MW connection from Ireland to the UK (Liverpool) that is owned by EirGrid with tech supplied by ABB. It should be operational next year [2012].

And there are plans for around 10 more either linking remote parts of the UK to more populous areas or providing a connection to foreign markets.

The national interconnects include:

- Western HVDC Link – a planned 222-mile, 1.2-1.9GW interconnect from the west coast of Scotland through the Irish Sea to Liverpool
- Eastern HVDC Interconnector – a planned 194-mile connection from Peterhead in the north east of Scotland to Sunderland in north east England carrying 1.2-1.9GW

The interconnects linking the UK to foreign markets are:

- ElecLink HVDC Interconnector – a 44-mile, 5GW bipolar connection between the UK and France, running through the Channel Tunnel which is owned by Groupe Eurotunnel and [STAR Capital Partners](#). It was first announced in May 2011
- Norway-UK HVDC Interconnector – a 444-mile, 1.4GW connection linking Norway to north east England, jointly-owned by the National Grid and [Statkraft](#)
- NorthConnect HVDC Interconnector – a planned 379-mile link led by a joint venture of Scottish and Southern Energy, [Vattenfall](#), Adger Energi, E-Co Energi and Lyse that is slated to be operational by 2019
- East West 1 – 350MW connection to Ireland which is being developed by [Imera](#) and currently going through planning
- East West 2 – 350MW connection to Ireland which is being developed by Imera and currently going through planning
- Channel Cable – 800MW connection to France that is owned by Imera and is currently going through planning
- Nemo – 700-1,300MW connection to Belgium by the National Grid and [Elia](#) that is currently being studied, but is expected to be operational 2013-14
- Belbrit – a 1GW connection to Belgium that is owned by Imera Power and is currently being researched

Conclusion

With the continuing shift away from carbon-laden power generation, global nervousness over nuclear since Fukushima and the relentless progress of renewable energy, the European power market will need to remain fluid to allow free flow of electricity to where it is needed.

Amusingly, in the case of Germany that shall mean that by mothballing their nuclear facilities it will make them increasingly reliant on the likes of France to throw a switch and send their nuclear-generated energy over the border.

In the meantime, it is entirely reasonable to expect the steady flow of M&A deals in the UK renewables sector to continue and for it to become increasingly commoditised as the initial investors flip assets and the more natural long-term investor steps in.