



# Bioenergy Future Ireland

Financing BioGas &  
the Electricity Orthodoxy?

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26 February 2020

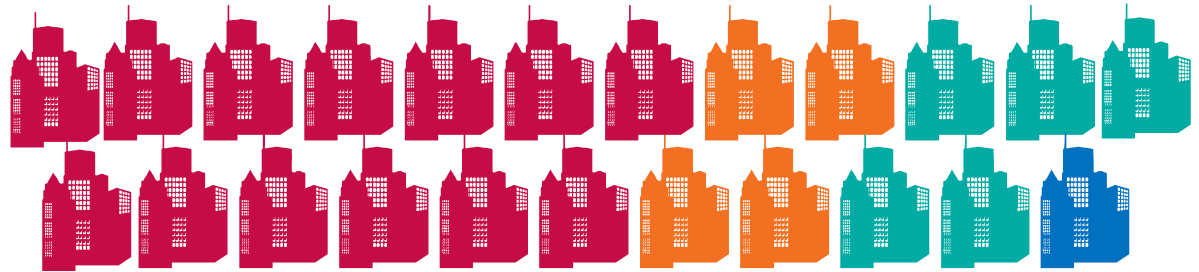


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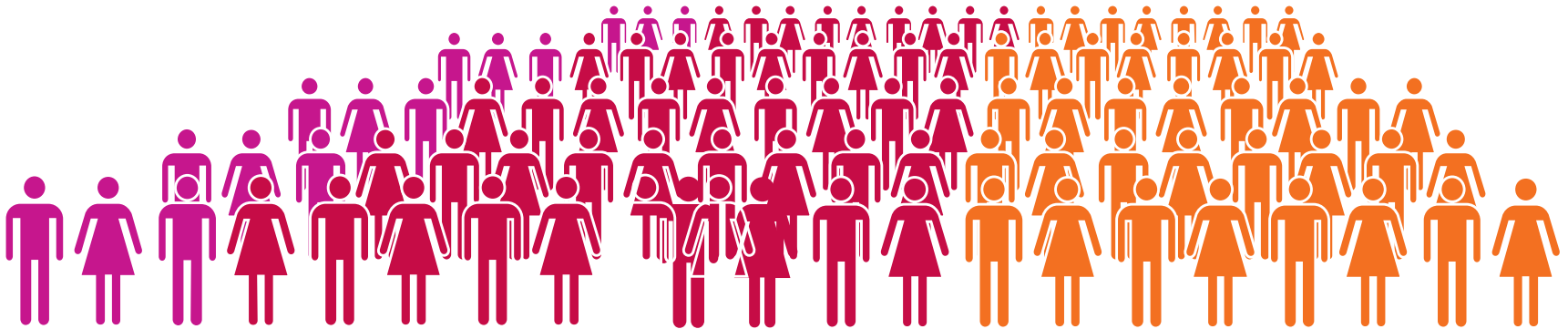
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**€500m+\***  
annual turnover



**15** European offices (inc. Belfast and Dublin) **4** Middle East offices **5** Asia Pacific offices **1** African office



**450+**  
Partners

**1,600+**  
Lawyers

**1,000+**  
Support Staff

**3,000+**  
Total workforce

# Energy Market and Firm Credentials

**Belfast – 100+ years**

**Dublin – December 2017**

We have grown the Dublin office to cover all our sectors and are a full service law firm. We are winning and executing mandates in all of our core sectors

**Project Finance**

Domestic & international  
Vindin – Irish law refinancing  
(Sweden & Finland)



**Law Firm of the Year**

Named as Law Firm of the  
Year at Legal Business Awards 2019



**EDF**

Acquisition - Codling offshore wind



**Wind & Solar Portfolios - current**

Advising developers and PE funds on the acquisition of  
wind & solar portfolios

**Gas to the West**

Advised Mutual Energy on financing and construction of  
Gas to the West Project



# The Irish Energy Market

## **The Irish energy market has great potential and has performed reasonably well**

- Excellent fundamental energy resources (onshore and offshore wind in particular)
- Strong tariff support (inflation indexed feed-in tariff with upside potential)
- Investment-friendly corporate and tax regime
- Power demand underpinned by population & data centre growth

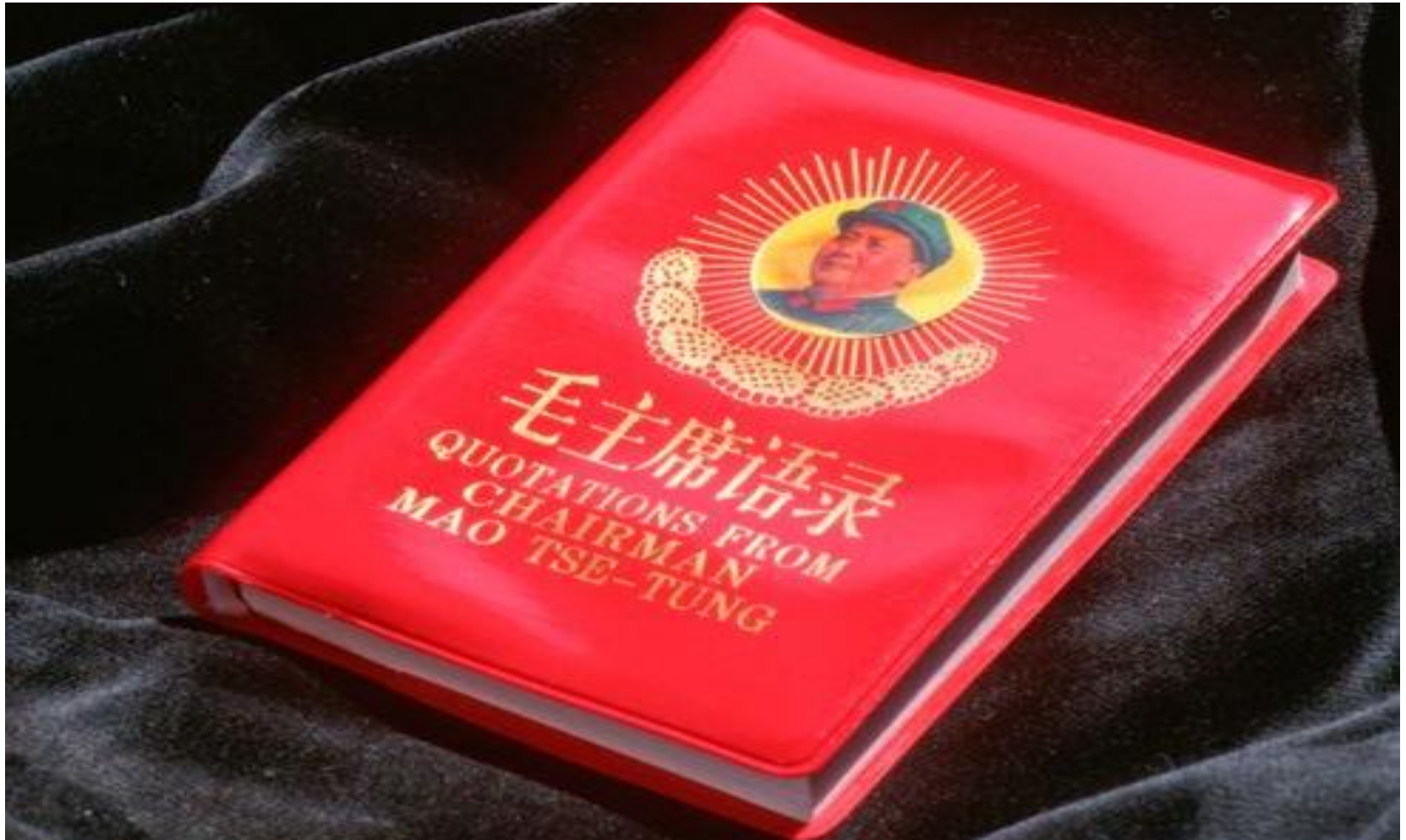
## **But has in recent years struggled to achieve its targets**

- Financial crisis hangover
- Challenging planning regime and aggressive post consent challenges
- Limited grid capacity / offshore grid
- Lagging in renewable heat and transport targets

## **Emerging policy clarity**

- Marine and offshore planning
- Technology-neutral RESS auctions from 2019 / 2020
- **2019** Government Policy statements
  - Project 2040 (infrastructure / capex focus)
  - Climate Action Plan (clean energy focus)
- Revised regulated grid connection offer process (ECP-1 & ECP-2)

# What Orthodoxy?



# Challenging the orthodoxy



- Gas Networks published October 2019
- <https://www.gasnetworks.ie/vision-2050/index.xml>
- De-carbonisation has been centered on electricity
- Need to look beyond electricity, heat and transport
- Unlocking potential of the Gas Network
- Promote sector coupling and integration

# The Net Zero Challenge

- Core strategic and political goal
- The Irish Gas Network
  - integral part of the energy system
  - prolonged significant capital investment
  - wholesale replacement of natural gas
- Marketing the Gas Network requires a new narrative
  - challenging the electrification orthodoxy
  - taking a view on monetising future revenues
  - compete in a subsidy free
  - indigenous backstop to geo-politics and technology
  - sector coupling

# The Push for Power

- Electrification of the economy
- Climate Action Plan – in a hurry?
  - offshore Wind (3.5GW)
  - onshore Wind Target (8.5GW)
  - solar PV (1.5GW)
  - no mention of renewable gas...
- Net zero gas market needs a net zero power market?
  - anticipating future fuel mix requirements
  - abated gas adoption contingent on CCS
  - how much electricity can be generated
  - What is the right infrastructure that needs to be built?



# Renewable Electricity Support Scheme (RESS)



- Implementation details not published.
- Administration unclear

# BioGas – Framing the Argument

- Biogas / biogas at scale?
  - Move to merchant
  - Behavioural change is inevitable
  - Grid access (power and gas)
  - Green gas & additionality
  - Farming & revenue diversification
- The revenue mix
  - Gate fee, heat & power sales (natural hedge)
  - Improve electricity economics
  - negating intermittency?
  - reinforcing power system resilience?

# The Case for Sector Coupling

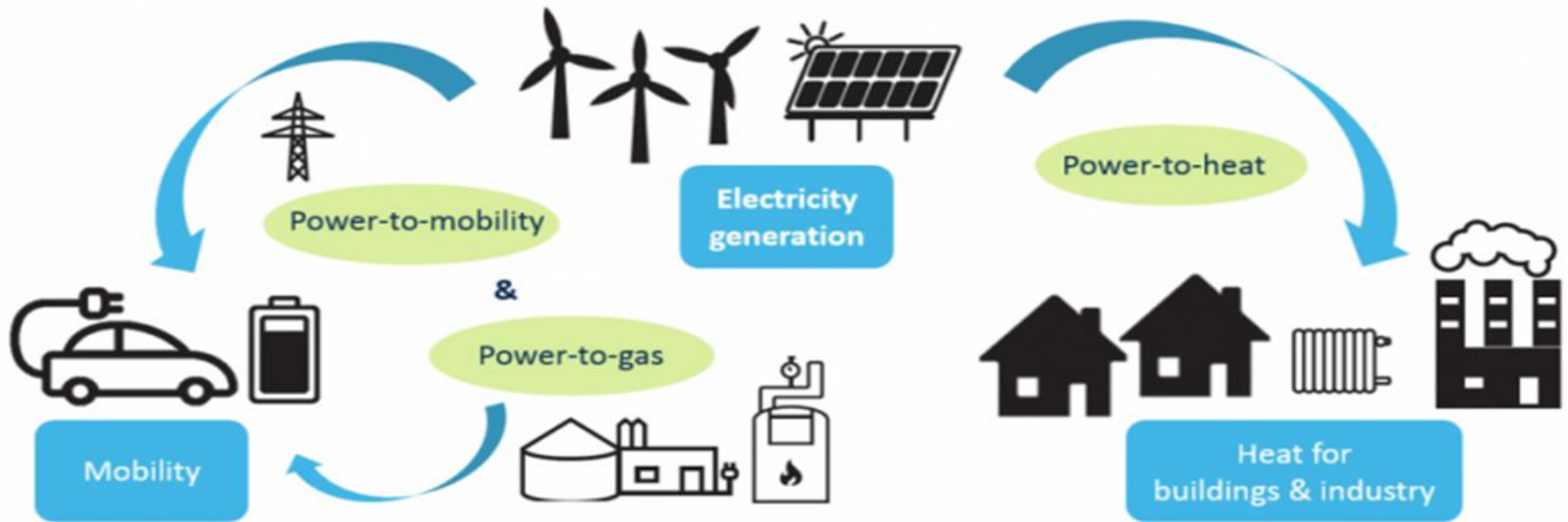
To date **energy systems**:

- are commonly built and regulated in silos
- offer linear supply chains and limited revenue streams
- reflect the electricity dominated decarbonising narrative  
(.....predicated on enough electricity always being available)

**Sector coupling** can:

- integrate energy consuming sectors with power producing sectors
- optimise built assets with new technologies and uses
- mediate otherwise incompatible policy goals
- accelerate emissions reductions
- reconcile and access diverse revenue streams
- enable survival in a merchant energy market?

## Sector coupling – an integrated energy system based on renewable electricity



# Corporate Finance

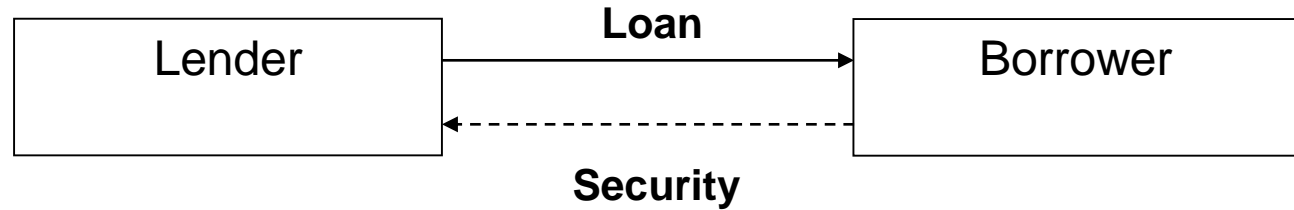
- Corporate risk
- Lender control can be light
- Quicker
- Full recourse / on balance sheet
- Lower gearing

# Project Finance

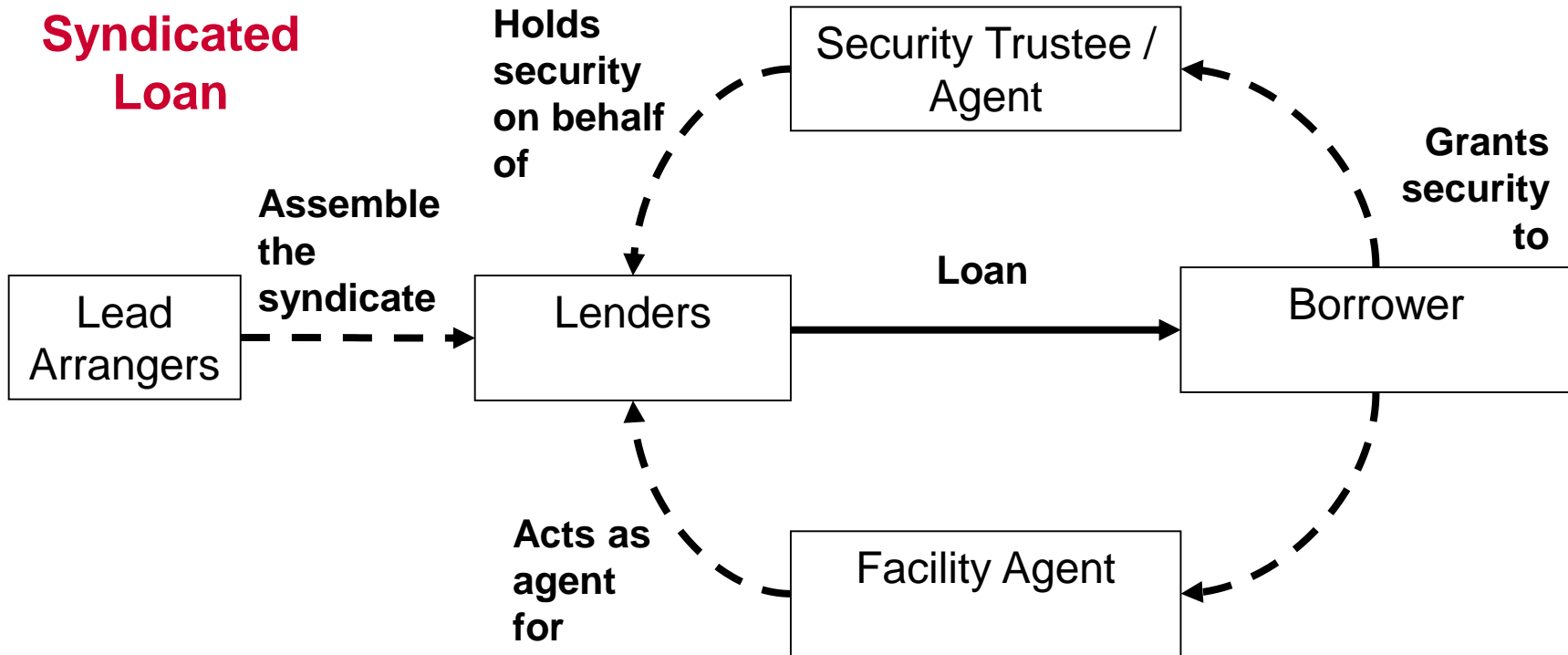
- Project risk
- Significant lender control
- Slower
- Non-recourse or limited recourse / off balance sheet
- Higher gearing

# Corporate Finance Structure

## Bilateral Loan



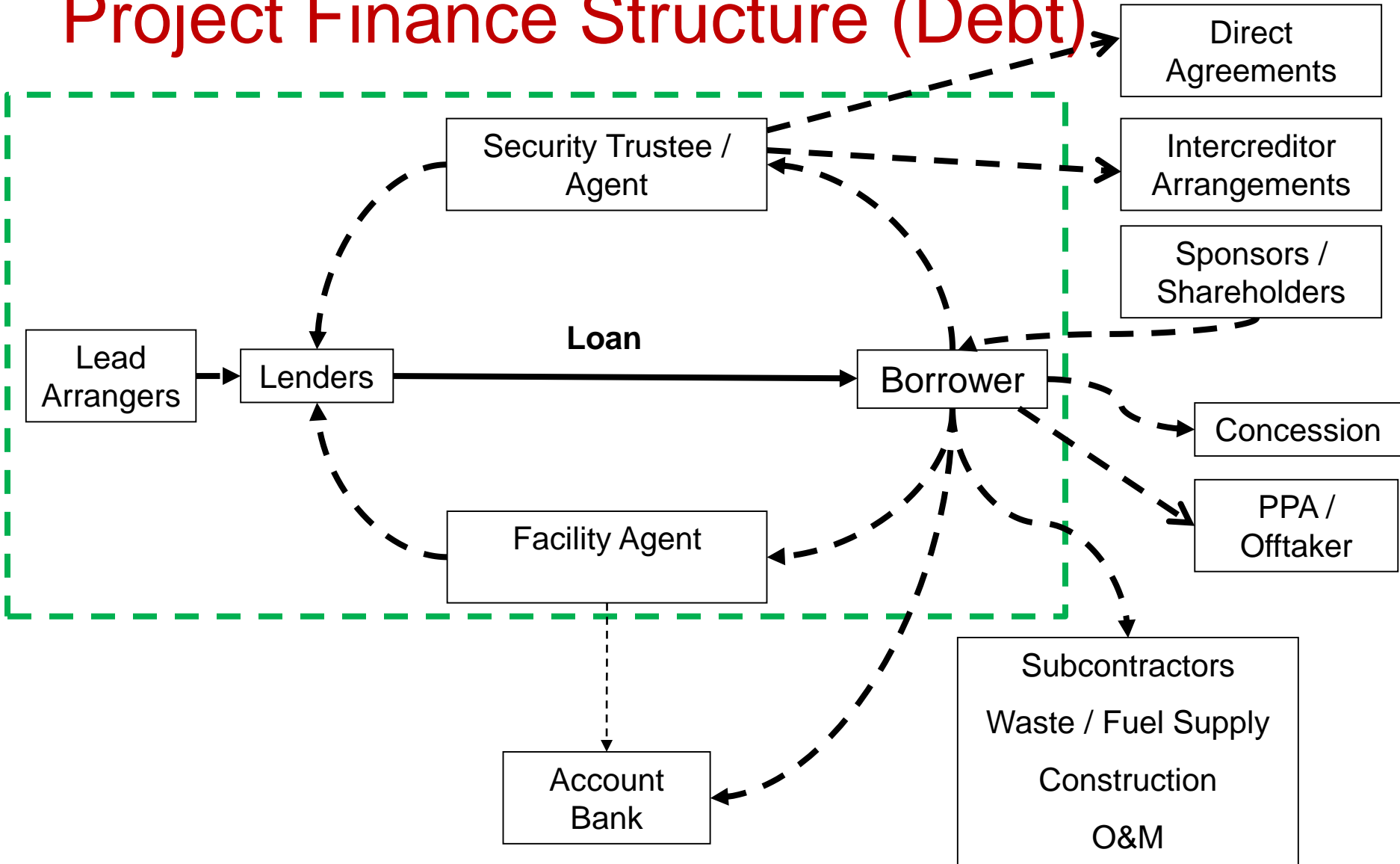
## Syndicated Loan



# Project Finance – basic features

- Proven model in Ireland (4,000MW onshore wind)
- Local expertise, international appetite
- Special purpose vehicle – a separate borrower
  - Limited company (sometimes plc)
  - LLP or LP (tax structuring)
  - Unincorporated JV: offshore wind / oil and gas
- Role of Sponsor(s) (shareholders)
  - “developer” shareholders; relevant expertise
  - Subcontractors
  - Third party financial investors – pension funds / private equity
  - Sponsor equity and contingent support
- Project security – robust enforcement mechanics and protections
- Long term debt – 7 to 30 years

# Project Finance Structure (Debt)





# Due Diligence

- Why?
  - Very low margins (one bad loan takes a long time to recover)
  - Funding cash flow, not an asset
  - Long term commitment, sometimes with limited refinancing opportunities
  - Limited recourse finance (step-in rights but little recourse to Sponsor's balance sheets)
  - Good counterbalance to developer enthusiasm
  - Risk is unavoidable in project finance
- But:
  - Risk averse, particularly unfunded risks
  - Time-consuming
  - Increase in demand from credit committees for detail / standardisation for bank's own risk policies

# Extent of Due Diligence and Key Factors

- Legal :
  - adequate project documentation
  - security rights
  - Vires
  - Turnkey contracts or interface risks?
  - New technology?
  - Fixed price contracts?
  - Performance-related payment mechanisms?
  - Raw material supply arrangements?
- Environmental – noise, contamination, radar, nuisance
- Financial : Model assumptions / sensitivity / audit
- Insurance : Extent and level of cover / interaction with project documents

# Thank you



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