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Documenting power deals hedging arrangements

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Davis Polk partner and Infrastructure Finance practice co-head Elena Millerman, partner Christopher Nairn-Kim, counsel Michele Babkine and associate Mostafa Al Khonaizi authored “Documenting power deals hedging arrangements” in *International Comparative Legal Guides: Lending & Secured Finance 2025*. In the chapter, the authors discuss the evolving power markets and mitigating the various financial risks through interest rate and commodity hedging arrangements.

They note that one type of this mitigation takes the form of derivatives or other hedging arrangements between the borrower and, in the case of interest rate hedges, one or more of the lenders or, in the case of commodity hedges, standard commodity hedge counterparties and/or energy managers. In particular, interest rate hedges are fundamental to project financings as they protect against volatile interest rate swings during the (lengthy) life of the transaction. Similarly, the use of commodity hedging arrangements to address demand and price volatility has increased to supplement or replace diminished availability of long-term committed offtake arrangements from industry participants. Given the continued demand growth for power generation driven by data centers and AI-enabled products, as well as increasingly uncertain weather patterns and interest rate swings, the mitigation of interest rate and commodity hedging risks will remain squarely in focus in the structuring of power project financings.

Read the full chapter