

Trianel: Power allies

01/02/2006

Sole lead arranger WestLB has closed syndication on the Eu359 million (\$434 million) debt backing the Trianel power project in North Rhine-Westphalia – Germany's first significant project financing of an independent power plant (IPP).

The project company behind the 800MW combined cycle gas turbine (CCGT) power plant is Trianel Power Kraftwerk Hamm-Uentrop GmbH. Trianel was formed originally as an energy trading vehicle by a consortium of local utilities keen to improve their bargaining position (26 German, two Dutch, and an Austrian utility). With advice from Commerzbank, the consortium appointed WestLB as lead arranger in April 2005.

As little as six months later, on 29 September 2005, the finance agreements were signed – an impressive schedule given Trianel Power is the first ever large-scale power plant in Germany to be financed on a project finance basis.

The plant will be built at the DuPont de Nemours site in Hamm-Uentrop and will consist of two identical 400MW units with a total cost of around Eu440 million. The plant is already under construction by Siemens and should be operational by September 2007.

The date of 10 September 2007 is important in that it constitutes the deadline to qualify for a five-year exemption from gas sales tax for power plants that operate at certain level of thermal efficiency: Trianel will operate at more than the 57.5% thermal efficiency threshold.

Although sole lead, five different WestLB units were involved in the deal: GSF Energy Team, BU savings banks & public sector clients, CRM Structured Risks, derivatives and syndications. The timetable was tight to make sure the plant would be commissioned before the tax-exemption window closes: Trianel made a bold decision and informed EPC contractor Siemens to proceed with construction in May 2005. Within six months the financing was pulled together, after a gas supply contract was agreed with E.ON Ruhrgas and an operations and maintenance contract was signed with Fortuna.

The facility's total investment cost is Eu450 million. The 20-year Eu359 million project debt is priced at 60bp over Euribor, rising to 95bp over time with an average DSCR of 1.2x.

Trianel's 28 member utilities are also the plant's offtakers, lending the project a lower risk profile than is usual for IPPs, since the large number of PPAs means that if one utility were to run into trouble then there are enough other offtakers to cover the slack. Any given utility's offtake is matched and directly proportional to its shareholding in Trianel.

The lending syndicate is large. WestLB offered tickets to relationship banks of each of the 28 utilities and several other large German banks. Almost all the targeted institutions accepted. Smaller banks had an option of committing under a programme whereby WestLB would undertake some administrative functions on their behalf. Twenty local savings banks (sparkassen) came in under this umbrella agreement.

E.ON Ruhrgas is the gas supplier to the plant under an initial 10-year contract. Fuel price risk is offset by the project passing fuel cost through to the offtaker under the power purchase agreement (PPA) price, ensuring a fixed return throughout the life of the project. In this way the supporting contracts act as tolling agreements, with the tariff under the 28 separate but identical power purchase agreements set at the beginning of each operational year when the annual

project budget is set.

The main objectives of the structure were to maximise the efficiency gains of a large-scale power plant and at the same time to consider each shareholder as owner and operator of its own individual smaller power station unit.

Trianel and its advisers deliberately structured the deal to match the dynamics of the German power market, with all the documentation written in German according to German law. In so doing, the deal has a fitting symmetry of local participation, with a multitude of local utilities as sponsors matched by a similar number of local lenders.

With the level of interest at syndication unexpectedly high (the deal finished oversubscribed), Trianel sets a precedent that is sure to be followed in future. A number of local utilities are now thought to be interested in new generation plant financed in a similar way. And with a conservative assumption of 20,000MW extra generating capacity needed in Germany in the medium to long term, this sort of financing could be repeated time and again.

The passing of the window for gas-supply tax may cause a hiatus for new CCGT plants. Nevertheless, Trianel, again advised by Commerzbank, is considering a project financing of an underground gas storage facility of about Eu100 million on the DuPont de Nemours site. And Trianel is also mooted to want a highly-thermal efficient coal-fired plant. Both could feasibly raise the debt through the same local institutions.

Trianel Power Kraftwerk Hamm-Uentrop

Status: Financial close 29 September 2005; syndication close January 2005

Description: Eu359.6 million financing for an 800MW CCGT in North Rhine-Westphalia

Sponsor: Trianel – a consortium of 28 local utilities

Lead arranger: WestLB

Sub-lenders: Capitalia, IKB Deutsche Industriebank, Landesbank Baden Wutternberg, Landesbank Hessen-Thuerigen, Nordeutsche Landesbank, Banque de l'Economie-Credit Mutuel, Landesbank Rheinland-Pfalz, WGZ-Bank and 20 small savings banks (Sparkassen)

Financial adviser to sponsor: Commerzbank

Sponsor legal counsel: Gorg

Lender legal counsel: Allen & Overy

EPC: Siemens

O&M contractor: Fortuna

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