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Rijnmond IPP: InterGen's Dutch first

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North-west Europe has witnessed financial close of its first hybrid merchant power deal in years, and its first IPP since EU electricity directives were introduced in 1996. The Rijnmond power plant project signed on 14 November 2002 with a total financing of Eu622 million ($633.5 million). This comprised a BNP Paribas/ SG-led four-tranche debt facility of Eu461 million and a Eu161 million one-year InterGen equity bridge loan.

Rijnmond has an interesting financial structure built out around market price risk, using a hybrid structure, forward-looking ratios and partial cash sweeps. Because lenders are generally wary of taking on full merchant risk, the power purchase agreement (PPA) of 15 years is a comforting mix of three five-year blocks mixing fully contracted and market-linked revenues.

The contract structure is reminiscent of InterGen's US borrowing base approach, which matches leverage and debt to the proportion of contracted revenues and predicted spot prices. For the first five years of the contract, gas costs are passed through to offtaker Nuon (full pass-through of the gas costs). Revenues are fully contracted for this period, which is arguably the riskiest period for a power facility. For the remaining ten years, in two five-year blocks, of the PPA half of the output will use the first, contracted formula, and the other half will be measured against an appropriate wholesale market index - in this case, the Amsterdam Power Exchange.

Whether the power exchange will still exist when this period is up is yet to be seen. This is a plus for all parties - lenders, sponsors and the offtaker - as it provides the option of flexibility to take advantage of potential gas market changes. After the first five years, the supply of gas contract can be sustained. If not there is an option to pick up a new contract with Gasunie - again in two blocks of five years - the European gas supplier based in the Netherlands.

In the current liberalising market, having this option was important. Also, the long-term senior loan has a nominal tenor of 18 years. Repayment operates with cash sweeps from years 6-18. The average life is nearer 15 years, with the last three years of full merchant risk as a cash sweep to ensure all debt will be serviced.

Rijnmond is a gas-fired combined heat and power plant. Its capacity will be 790MW. Nuon, a leading distributor, will most probably use the output as a back-up for its Dutch customer base, or trade around it, as a kind of virtual generation facility. Having this hybrid contract is useful for Nuon, which as a result will achieve all the benefits of its own power plant with none of the technical risk. Nuon first fixed the gas contract and then the power contract.

Debt financing breaks down into four tranches, a senior loan of Eu405 million, Eu15 million working capital and two letter of credit (LC) facilities worth a total of Eu41 million. The project suffered a four-week delay in October of this year when bank response to sub-underwriting was disappointing. InterGen did not expect the delay and the financing was duly reworked with a pricing flex of 15bp. Joining banks are thought to have been offered a sub-underwriting fee of 5bp for 22.5bp participation, and the remainder, an underwriting fee of 65bp. Those familiar with the deal say it was not so much a matter of pricing as a need to mitigate any market price risks.

The current power market has been held to blame for this hesitation to get on board with Rijnmond, although the Dutch market in general has not been affected by depressed prices. Mark Somerset, project director at InterGen says: "This proved harder to sign than we had anticipated. But it was a sign of the tough market. It is well known that power deals are currently hard to finance. AES Drax and TXU are examples of market events which have made the market nervous about financing power - regardless of it being the Netherlands. We had to improve the deal substantially."

The banks that joined in syndication were Bayerische LB, HBoS, Fortis, WestLB, NIB, Nord LB, Credit Lyonnais and Bank of Ireland. InterGen secured its Eu161 million equity bridge loan with guarantees from its shareholders - this was attractive mostly for InterGen but also for lenders. One market player says: "This is how InterGen now does all its projects - it is very cost effective."

InterGen's biggest risks are availability and performance. It has countered - or at least mitigated in part - the availability risk with known and proven technology, using Siemens V94.3A2 turbines. The sponsors used an EPC joint venture of Bechtel and Enka for the construction. Whilst Bechtel is very well known, Enka has had less publicity.

Enka has been delivering a three-part power project deal for InterGen in Turkey with a total capacity of 3,800MW completed ahead of schedule and within budget - a rare and impressive feat. Meanwhile, lending significant peace of mind to the project is the distinct Shell flavour. InterGen is owned 68% by Shell, and Gasunie, the supplier, is owned 25% by Shell. In addition, Shell is the steam offtaker, and is working on home turf, as its Pernis refinery is adjacent to the power plant.

Elan, the market adviser, conducted a number of studies in the Netherlands to test electricity demand. It was found that generally, market players are comfortable that there is a demand for new clean, gas-fired renewable power in the market, and this will only increase over time as nuclear plants are decommissioned. When the PPA expires on Rijnmond, probably in late 2019, the project will operate on a merchant basis and as such, will need new contracts to be financeable. Ralf Kupfer, vice-president at BNP Paribas says: "This was a sophisticated financing structure with forward looking ratios and cash sweeps, tightened in the light of recent events in the power sector and related hardening of the syndication market."

Rijnmond IPP

Status: closed 14 November 2002
Location: Rotterdam, Netherlands
Description: An EU622 million ($633.5 million) combined heat and power plant project using a hybrid-merchant structure
Sponsor: Intergen
Debt: Eu461 million comprising four tranches with two mandated lead arrangers and eight in syndication
Lead arrangers: BNP Paribas, SG
Financial advisory: Deutsche Bank
Legal advisory to ledners: Shearman & Sterling
Legal advisory to sponsor: Clifford Chance
Technical advisory: PB Power
Market advisory: Elan
Insurance advisory: Marsh