Huntstown: Ireland's first IPP closes

01/06/2002

On 19 April 2002, Huntstown Power Company Limited (HPC) in North County Dublin became the first independent power project (IPP) to close financing in Ireland. Under development since 1996, the project has overcome substantial obstacles inherent in Ireland's faltering de-regulation process. ?This has been a substantial challenge all the way through,? says David de Casseres, chief executive, HPC. ?I hope that its closure signifies a wider opening of the market.? Huntstown is wholly owned by Viridian Group Plc.

Ireland is hungry for power. A steadily growing economy over the last few years has meant that projected growth in power demand is outstripping new capacity. However, incumbent ESB's tight grip on a supposedly de-regulating market, as well as problems in securing sufficient gas supply, has made it an unattractive prospect for IPPs.

The De-regulation Act of 1999 stipulated that 28% of Ireland's customers were eligible to buy power from an independent generator. This has now in theory risen to 40%. However, in practice there are not sufficient independent generators for customers to make this choice. The main barrier to their emergence is that the market has not matured into a wholesale structure. There is no pool or other mechanism for pricing. As such, IPPs are forced to buy at a high cost and sell very cheaply, making it almost impossible for them to compete with ESB. Potential developers have called for a forced adjustment of ESB's tariffs.

A number of prospective IPP developers have pulled out in frustration at the slow progress. Uncertain conditions make raising financing an almost impossible task. Huntstown has proved the exception so far, though, by tolling. An agreement is in place between the plant and Viridian Energia Ltd., also a wholly owned subsidiary of Viridian Plc. ?At the beginning we were looking for a merchant power structure,? explains Peter Bailey, chief financial officer, HPC. ?However, it quickly became apparent that this was not possible with current market conditions and would not be possible until at least 2005, the target for full market opening.? Tolling became the solution. It is stated that the tolling structure was altered for the Irish market and could also be described as a PPA in conjunction with a fuel supply agreement.

Securing gas supply has been another obstacle preventing some IPP entrants. Transportation is the key. There is plenty of gas in the UK but interconnector capacity between Ireland and the UK is limited. Planning permission has also caused delays. Local authorities have considerable power and the process can be quite lengthy.

HPC got a head start in development by addressing these issues early on. In November 2000, it was one of only three IPPs to secure gas supply from the UK interconnector.

Construction of the 343MW combined-cycle gas turbine (CCGT) plant commenced shortly after, funded on balance sheet. It is on target to come on line in December 2002. It is based on Siemens gas and steam turbine technology. Siemens Ltd will provide maintenance services for the gas combustion turbine throughout the life of the project. There is a contract in place between HPC and Gensys Power Limited, another subsidiary of Viridian Ltd., for operation and maintenance of the station. ?There was an element of risk in moving forward with balance sheet funds before possible financing routes were clear,? says John Dewar, partner, Milbank, Tweed, Hadley & McCoy, ?but it has paid off?.

Once the tolling agreement was in place, raising project funds was actually quite straightforward. ?Lenders are fairly wary of power risk at the moment,? says one industry player. ?Look at the UK. It moved from a PPA style to merchant structure and then with the introduction of NETA, prices collapsed. Now banks want to be sure of sufficient demand.?

Barclays Capital was appointed in January 2002, replacing an original financial adviser, whose interests, according to sources close to the deal, no longer matched this project. However, since funding plans were largely in place already, Barclays main role has been that of lead arranger. Financing closed on 19 April 2002, with Barclays underwriting the full Eu220 million debt. The financing structure is a fairly standard IPP template, with a pre-completion guarantee and leverage described as normal. The facility breaks down into a Eu209 million term loan, structured as a secured amortising project finance credit facility and an Eu11 million working capital revolver.

Barclays launched a syndication phase at the beginning of May, holding a presentation and site tour on 15 May. Two levels are sold on simultaneously. A group of relationship banks are being offered higher takes than those joining at general.

Interest is said to be strong. Irish banks are keen for a stake in strong domestic projects, but more importantly, according to Peter Bailey, international banks in general are attracted to the structure. Viridian has taken on market risk and in the current climate of uncertain market conditions, this is all important. Pricing is said to be quite tight, similar to that seen on UK deals boasting a tolling agreement.

All involved in the deal cite it as a significant precedent for financing IPPs in Ireland. The terms that have been drawn up are indicative of the current market. Experience suggests that debt markets might see another couple over the next few years. HPC has shown that it can be done. However, until a real mechanism for trading power kicks in and a proper wholesale market develops, IPPs in Ireland are not going to have an easy ride. Financing on a merchant basis probably remains out of the question for the near future.

Huntstown Power

Company

Status: Signed 19 April 2002, currently in syndication

Location: Republic of Ireland

Description: Financing to back construction and operation of Huntstown Power Company Ltd., Ireland's first IPP

Sponsor: Viridian Plc.

Debt: Eu220 million, broken down into a Eu209 million term loan and a Eu11 million working capital

Lead arranger: Barclays Capital

Lawyers to the borrowers: Milbank, Tweed, Hadley & McCloy

Lawyers to the lenders: Linklaters

Financial adviser to the borrower: Barclays Capital