Hazelwood: time to refinance

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Hazelwood Power's A$1.187 billion ($692.5 million) refinancing is out in the markets, well timed to take advantage of favourable pricing and interest rates. The facility, which is the largest of a handful of current Australian power deals, has been fully underwritten in a sub-underwriting phase. Launch to general syndication is imminent as Project Finance goes to press. Roadshows are to be held in Melbourne and Singapore.

Funds refinance project debt raised to purchase the 1600MW plant during the Victoria government's power privatisation program in 1996. Lead sponsor International Power inherited the pant and its debt following its de-merger from National Power. In November 2000 International power purchased Scottish Power's 19.9% interest for A$88 million, increasing its stake to 91.8%. The remaining shares are held by Commonwealth Bank of Australia and Commonwealth Investment Services Ltd.

The coal-fired generation business is comprised of eight 200MW units, located in the Latrobee Valley. It is fed from an adjacent coal mine bought with as part of the package. Output is sold into the Victoria pool, which has interconnectors to News South Wales and South Australia. Although a per-centage of capacity is normally tied into forward contracts of one or two years, it is basically a merchant plant.

The debt on the original financing was not set to mature until 2008 but International Power wanted to extend this further. ?Although it is quite an old asset, a lot has been spent on expansion and refurbishment,? says a spokesperson. ? Its life span has increased and we wanted a financing to match that.? By doing this, International Power has freed up considerable cash in the short to medium term, which it says will be spent on funding planned expansion around the world.

In addition, by refinancing now, International Power takes advantage of current low interest rates. Existing swaps have been cancelled and the new ones secure a reduction in the effective interest rate to 7.8%. It is estimated that this will save the company around £5 million in the first and second years with further, but slightly reduced, savings every year thereafter. International Power has opted to pay off the unwound swaps and amortised fees in an upfront sum of roughly £29 million, rather than letting them run the course of their life. This will be accounted for as an exceptional charge in the results for the year ended 31 December 2001.

The slight reduction in funds being raised to A$1.187 billion from the original target of A$1.206 billion occurred because slightly less than projected was needed to pay off swaps. Debt breaks down into a A$741 million 12-year amortising tranche, a 8-year interest only tranche of A$445 million and a working capital of A$20 million. A tenor of 12 years, although notable for project debt in the Australian market, is not described as groundbreaking. It has been seen a few times before, not least on Hazelwood's original financing, and occasionally 15-years has been achieved. Power stations are long term assets and lenders are generally comfortable with them.

Lead arranging banks ANZ, Bank of America, RBS (Australia) and SG Australia are all acting as joint bookrunners. ANZ is the facility and administration agent and Bank of America the insurance and publicity bank.

A sub-underwriting phase closed on 21 February 2002. Abbey National, Bank of Scotland, Bank of Tokyo-Mitsubishi, Credit Lyonnais and WestLB climbed on board to fully underwrite the debt.

Lenders looking for a stake in the general phase are being offered upfront fees of 80bp for commitments of A$65 million, 65bp for commitments or A$55 million or 55bp for commitments of $A35 million.

The financing structure is modelled almost exactly on its predecessor, using the same security document. Exact pricing is not known but it is stated that, as before, it takes a three tiered form, rising twice over the loan's life. As such, the facility is cheaper for the immediate future. In addition, overall pricing has dropped slightly. When the original acquisition financing was raised, activity in the Australian market was aggressive, because everyone wanted a piece of the action. But as the market has become established, with pool prices lower than expected, conditions have become more favourable for established sponsors.

Another smaller power refinancing is also be taking advantage of attractive conditions. ANZ, Credit Agricole, KBC and WestLB have recently closed a A$315 million financing for NRG's Playford generation plant in South Australia. Of this, A$150 million is earmarked for refinancing existing debt and the remainder will contribute towards a planned refurbishment. A small syndication is likely to follow.

And National Australia Bank is in the process of taking A$115 million backing Edison Mission's greenfield peaking power plant to the markets, having fully underwritten it themselves. This breaks down into a A$35 million 5-year bullet tranche, a A$70 million 10-year amortising tranche and a A$10 million working capital. Pricing will typically be higher for peaking plants than for baseload generators. The plant was originally targeted to start commissioning at the end of January 2002, but is slightly behind target. It is estimated that it will be providing Victoria with 100MW by the end of this year.

Looking forward, predictions suggest financing activity within the Australian power market may quieten down. Victoria's privatisation program of 1996 has provided a spate of refinancings recently but once these are over, there are few other deals in the pipeline. Market studies suggest that there is not a pressing need for more greenfield capacity. Significant opportunities could certainly arise if New South Wales proceed with their suggested privatisation program ? but rumours suggest this is unlikely, at least in the short term.

Hazelwood Refinancing

Status: closed, in syndication

Location: Victoria, Australia

Description: Refinancing debt associated with purchase of Hazelwood power plant in Victoria, Australia

Sponsors: International Power (91.8%), with minority shareholdings held by Commonwealth Bank of Australia and Commonwealth Investment Services

Debt: A$1.187 billion, broken down into a A$741 million 12-year amortising tranche, a 8-year interest only tranche of A$445 million and a working capital of A$20 million

Lead arrangers: ANZ, Bank of America, RBS (Australia) and SG Australia

Legal adviser to sponsor: Mallesons Stephen Jaques

Legal adviser to lenders: Freehills