# UK: Aberdeen water - a Scots first

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The debt package backing the Aberdeen wastewater project signed on 24 August 2000. The £92 million ($138 million) debt comes in the from of a syndicated bank loan ? the first time that a PFI scheme for a Scottish water project has not gone ahead as a capital markets or club bank deal. In doing so, it has very much kept alive the competition between banks and monolines for business in the devolved country's water sector.

The last two big-ticket deals have gone through note issues ? both public and private. At least part of the rationale for these solutions is the sheer size of the work required. The transaction commonly seen as the template is the Stirling Water monoline-wrapped bond used to fund treatment and pumping facilities for East of Scotland water authority. This featured two wrapped bonds of £79 million and £29 million, the latter of which waited for planning permission on storage facilities and design changes. The wrap was used both for NPV reasons as well as a way of avoiding widening spreads on unwrapped paper in 1999.

The December 1999 Catchment Tay deal likewise went as a £103 million note issue placed by Barclays with the Prudential and Halifax, amongst others. Sponsors Bechtel, Morrison Construction and United Utilities have opted to keep the joint venture in place for further projects. Indeed, Catchment appeared on the list of pre-qualified bidders for the Aberdeen concession, alongside a Miller bid and one from Buchan (General Utilities/General des Eaux/Hailliburton).

However, Aberdeen Environmental Services ? made up of Balfour Beatty (45%), Kelda (45%) and Tyco Tech (which owns subcontractor Earthtech, 10%) ? secured the contract in June 1999. It then spent the next 11 months optimising the contract structure and financing process. At least part of the negotiations will have been taken up with trying to give an estimate for work that has not been carried out in the area before. In the past, sewage has been dumped with minimal screening off the Scottish coast.

The contract runs for 30 years and consists of the construction and operation of wastewater treatment plants for the North of Scotland Water Authority (NoSWA) at Aberdeen, Peterhead and Fraserburgh, serving 250,000 customers. NosWA has invested heavily in alterations to its own sewage pipes, so that they will be linked up to the new works rather that the long outfalls into the North Sea. It has agreed a concession with AES that follows the standard pattern for Scottish build-own-operate (BOO) concessions, with payments linked to the quantity of water handled.

Volume risk, therefore, is the main determinant of the bank debt's repayment schedule. And it is here that Scotland's rather shaky demographics create the biggest challenges. Population is forecast to decline, as it has in many other parts of the coun-

try, and any hope for growth in volumes handled come from Aberdeen's industrial sector, the oil industry in particular.

The consortium began construction on the Aberdeen plant, at Nigg, in January after it signed a pre-contract agreement with NoSWA. The Peterhead and Fraserburgh work commenced shortly after commercial and financial close. Peterhead plant is being constructed on a brownfield site previously occupied by the Burnhaven sewage screening plant, and the

Fraserburgh plant will be built at Phingask. The contract also envisages an upgrade to the Persley Wastewater Treatment Plant at Bucksburn, Aberdeen; and a future planned scheme to treat wastewater from Stonehaven at Nigg.

The works schedule gives some clue as to why a bond windfall of cash was less important to the banks than a flexible draw-down schedule. And whilst RBC managed a two tranche bond offering for Stirling, those close to the deal suggest that the size of the funding requirement put little clear water between the bond and bank route. CIBC World Markets and Halifax Group Treasury and Wholesale Banking eventually picked up the mandate to provide a bank solution, although at least one monoline is believed to have been involved in funding offers.

The lead arrangers have assembled a financing package that consists of a £68.67 million senior base facility, a £7.58 million piece supporting the later Stonehaven work, a £5.5 million standby facility, a £3 million working capital facility and a £7.25 million equity bridge, given that there was no external mezzanine provider. The first three have a 30-year tenor, with the working capital facility expiring in 2020. The loan life on the main facilities is 18 years, with a DSCR of 1.25x.

The pricing gives the best hint as to the success of Halifax and CIBC ? an aggressive 100bp over libor pre-completion and 80bp thereafter. Such margins are common in the prison sector and for refinancings, but rare in the water industry. Scottish water authorities are also known for using extremely tight penalty and performance regimes. The equity bridge is priced at 40bp.

If the pricing was tight, then the syndication process showed few signs of being hit by it. CIBC, as bookrunner and facility agent, approached around 12 institutions, of which six came in above the take target. These were: Bank of Ireland, Bayerische Landesbank, Depfa, KBC Bank, Lloyds TSB and NordLB, for £10 million apiece. Of the arrangers CIBC took £10 million, but Halifax kept £22 million on its books.

The sponsors have been reluctant to disclose details of the relationship of the contract structure and the financing, but bankers close to the deal are keenly highlighting the advantages of their lending. Whether the tussle does result in squeezed margins or more interesting attempts to follow concession payments by dealmakers will be hard to predict until more concessions come into the pipeline. All three new plants are expected to be in operation by the third quarter of 2001.