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Fifoots: Long tenor, low pricing

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Financing for the £123.75 million ($198.891 million) Fifoots power plant closed at the end of December 1999. It was the last transaction to close before the beginning of 2000 and marked the end of an extraordinary year for power project financing in the UK.

Entering the market at a time when larger deals such as the £1.875 billion Drax and £1.251 billion Fiddler's Ferry and Ferrybridge were in syndication, appetite for Fifoots was initially low. But by close of 1999 little debt was left unsold by sole underwriter Deutsche Bank.

Skandinaviska Enskilda Bank, DG Bank, Sumitomo Bank, Bank of Scotland, and Bayerische Landesbank joined the deal as participants. Deutsche Bank is now looking in the secondary market for another three or four banks to join the transaction before the end of March.

Sponsor of Fifoots is AES Electric. ABB and General Electric are the EPC contractors. Norton Rose acted as legal adviser to the sponsors and Linklaters & Alliance for the lender. Unlike other transactions in the UK, AES avoided huge acquisition costs for the plant, concentrating only on the capital needed for the refurbishment of the existing facilities.

Financing has been split between a £78.8 million term loan, a $5 million cost overun facility, a £36 million working capital facility, a £2 million fuel supply letter of credit, a £3.65 million NGC letter of credit, a £29.56 million equity bridge facility and a £1.76 million water supplier letter of credit. Priced aggressively between 125bp and 175 bp over Libor, Fifoots has considerably longer tenors and lower pricing compared to other UK power deals.

The financing package was put together to support the redevelopment and refurbishment of the 3x120MW coal-fired power project in south Wales, UK. Fifoots represents the first coal-fired merchant independent power producer present in the UK. The three units can operate independently making the plant adaptable to the market's demand. Coal is supplied to the plant by four mines, located 25km away from the plant. A nearby port assures the supply of coal from the international market in case local availability proves too expensive.

James Fenner, vice-president syndication at Deutsche Bank in London, says: "Financing of Fifoots has been a challenging exercise at the time when the UK power market was facing a large number of deals. The result has been a successful one and the favourable loan structure together with the mechanism of adjustment for the tenor of the debt exposure has attracted a number of banks to the deal. This possibility of shortening the debt tenor from 19 to 16 years according to changes in trading agreements or demand by end users makes the structure of the financing a very flexible one. Together with the debt-to-equity (70/30) portion, this makes Fifoots a benchmark deal in the UK for 1999."

Matthias Russwurm, vice-president in project finance at Deutsche Bank in London says: "We are very happy about Fifoots. The project has a lot of firsts, the first mid-merit merchant plant project financing in the UK, and being coal-fired and a refurbishment. Refurbishment instead of acquisition costs, such as the comparably low fixed costs, make this plant very competitive. Furthermore, the plant is ideally positioned for a mid-merit merchant plant: three independent units, attractive grid location in Wales, close to the coal mines and close to ports where coal from outside markets can be delivered. This year, Deutsche Bank will be looking at opportunities in the European and Middle Eastern power markets with a particular eye on countries such as Poland, Italy, Egypt or Turkey. The prospects are quite promising."

The UK government-imposed moratorium on the development of new gas-fired combined cycle power plants is likely to mean no more deals this year. Despite the refurbishment of Fifoots, market players do not envisage development of new coal-fired plants on a merchant basis. The focus is more likely to be on opportunities abroad, mainly in Italy and France.

The approval by the Italian government of the selling of three generating companies, including 21 power plants, is what makes players in the power market busy. The sell-off of Eletrogen, Interpower and Eurogen, for a total generating capacity of about 15,000M, will give local and international developers and financiers enough opportunities to enter one of the largest European power market after the UK. For the government it will represent a good chance to show Italy's commitment to EU rules on deregulation, due to be implemented by 2002.