

European Power Project Bond of the year

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Closed in October 1999, the Chase-arranged limited recourse project bond for special purpose company Eastern Norge Svartisen marks a number of project finance firsts. The first hydro-power bond financing. The first Norwegian bond financing with a tenor longer than 10 years. And the first ever repackaged long-term monoline deal.

But the most significant feature of the deal is the tenor ? 30 years in a market where until recently bond tenors were restricted to 10 years maximum.

In late 1998 TXU Europe (what was the Eastern Energy group until the recent buyout by Texas Utilities) acquired the rights to 26.7% (560GW/hrs) of the power produced from Svartisen Hydroelectric plant in Norway for 55 years from Statkraft. Ownership of power in Norway is restricted to state entities and TXU had to bid hard for ratification of the license agreement (another first and unfortunately now unrepeatable unless the Norwegian government changes the law) and knock Sydkraft out of the competition.

Eastern Norge's abstraction rights have been matched by a 33 year offtake agreement with Eastern Power and Energy Trading, a wholly owned subsidiary of TXU Europe, which then trades on to NordPool.

Svartisen is a key plant in TXU Utilities European trading strategy. Demand for power across Scandinavia is growing and because of a number of aspects unique to the hydro-electric plant, TXU has the ability to release power into Europe's deregulated market as and when spot prices are at their peak.

Svartisen is fuelled by melted glacial water built up in a 3468 million m3 main reservoir, and secondary sources from smaller lakes and rivers. The plant produces the lowest cost generation in Europe. With a full reservoir Svartisen can generate for 2 years without running out of water and conversely can store power for up to 2 years to cherry pick top energy pricing hours.

Maintaining that trading flexibility was integral to TXU's financing requirements. ?We needed a deal that would let us operate at peak times, match bond payments and over a very long tenor,? says John Hunt, business development manager at TXU Europe Power & Energy Trading.

Chase started marketing the issue in 1998 only to be hit by The Russian crash which hit Norwegian investors hard. In addition, used to Norwegian government AAA bonds, Norwegian investor appetite for the deal was slim ? especially given the tenor ? until MBIA-AMBAC wrapped the transaction.

More than half the Nkr978.9 million (\$114.2 million) issue was sold to six Norwegian non-bank investors with the remainder repackaged and sold to Sterling denominated investors. The wrap pushed final maturity to 30 years with a 21-year average life. According to Hunt, ? the all-in cost of funding was very competitive,? even with the added cost of the wrap.

With the Norwegian government having closed the acquisition rights loophole that enabled the deal to go-ahead, more Norwegian hydro-power bonds look very unlikely. But the template is certain to reappear for deals on similar long-life assets across Europe and TXU Europe plans to re-use the structure for similar opportunities.

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